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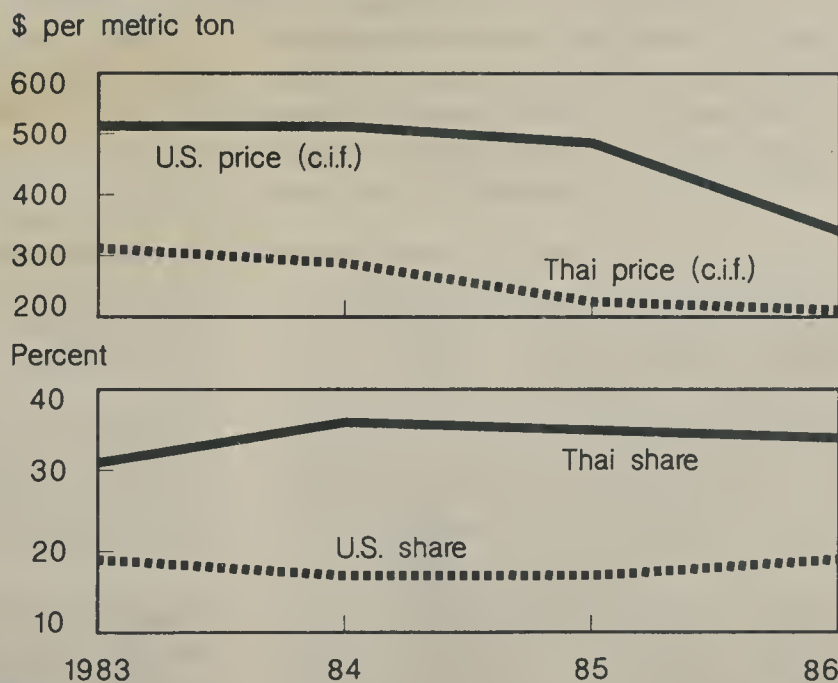
Economic  
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June 1987

# Southeast Asia

## Situation and Outlook Report

U.S. and Thai Rice Export Prices and  
Share of World Trade



Price gap narrows; Thailand  
still leads in world rice trade



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Note: Southeast Asia consists of Brunei, Burma, Indonesia, Cambodia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Agricultural production is reported in metric tons and reference to years are calendar years unless otherwise stated; dollars are U.S., unless otherwise specified; and rice data are for milled rice unless otherwise specified. Rice prices on cover chart are for U.S. milled 4 percent and Thai 100 percent grade B.

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## SUMMARY

During fiscal 1987, U.S. agricultural exports to Southeast Asia are forecast to increase 8 percent from a year earlier to around \$800 million. The gain is mainly due to a strong rebound in cotton sales, which will more than offset lower wheat, soymeal, soybean, and tobacco earnings. Lower U.S. prices coupled with weak, but improving Southeast Asian economies are expected to raise the import volume of all major U.S. bulk commodities, except soymeal and soybeans. Wheat and wheat products are expected to comprise 25 percent of sales, followed by cotton (19 percent), tobacco (12 percent), and oilseeds and products (11 percent). The United States is expected to provide 12 percent of the region's \$6.3 billion in agricultural imports.

In fiscal 1986, U.S. agricultural exports to Southeast Asia declined 14 percent to \$724 million, about 40 percent below the 1980-84 average. Strong competition, lower prices for most U.S. commodities, and generally smaller import volumes caused the decline. A sharp drop in U.S. cotton exports accounted for more than 90 percent of the \$115-million decline, with the remainder largely due to smaller rice shipments and lower tobacco prices. The downtrend in the U.S. share of Southeast Asia's shrinking farm import market appears to have leveled off in fiscal 1986 at 11 percent.

Except for Indonesia, the major Southeast Asian economies generally performed better in 1986 than in 1985. Malaysia and Singapore each registered real growth of about 2 percent following economic contraction in 1985. Malaysia's economy was led by manufacturing and agriculture, while stronger export demand for manufactured goods and services boosted Singapore's recovery. The Philippines arrested its severe 2-year economic decline with real GDP virtually unchanged from 1985. The halt in the economic decline is largely credited to agriculture, which enjoyed record rice and corn harvests, as well as a strong recovery in the coconut sector. The Thai economy continued its moderate growth of slightly less than 4 percent, as gains in trade, tourism, and construction offset stagnant domestic demand and agricultural performance.

Agriculture was not spared from the Philippines' debt crisis, although subsequent reforms have already enhanced the farm sector's competitiveness. Agriculture is viewed as a key to recovery. Philippine strategy to restore creditworthiness and economic growth is based upon reviving private sector activity and export growth, especially of nontraditional goods. The Philippines has made substantial progress in privatizing government and quasi-government corporations, dismantling monopolies, stabilizing foreign exchange rate and reserves, lowering interest rates, and keeping inflation low.

Following 2-percent growth in 1985, Indonesia's economy contracted an estimated 1.5 percent in 1986, due primarily to a sharp decline in the value of crude oil and liquefied natural gas production. Lower tax revenues from hydrocarbon exports caused Indonesia to reduce development expenditures. On September 12, 1986, Indonesia devalued the rupiah 31 percent against the U.S. dollar to maintain its balance of payments at a comfortable level and to sustain development. Important regional exports such as rubber, palm oil, tin, and petroleum brought relatively low prices. Because Indonesia and most other economies in the region are export-oriented, their rates of economic growth are linked to export market accessibility, world demand, and market prices.

Regional economic growth in 1987 will be constrained by continued low prices for most major export commodities. Indonesia, and to a lesser extent Malaysia, still suffer from the steep drop in petroleum export prices in late 1985 and early 1986. Their economies may grow less than 3 percent in 1987. In Indonesia, conservative budget policies to offset sharply lower government tax revenues (stemming from reduced oil exports) will slow economic and agricultural development. The Singaporean and Philippine economies could register real growth of 3-4 percent as policies to stimulate their economies are increasingly effective. The Thai economic outlook is slightly better and real growth may be 4-5 percent.

EXCHANGE  
JUL 7 1987



Southeast Asian agricultural production rose 2 percent in 1986 to a record high mainly on gains in rice, corn, soybeans, copra, cocoa, and palm oil. Per capita food production remained unchanged from 1985 but was 20 percent above the 1976-78 average. Output in 1987 may show little change. Gains in soybeans, palm oil, palm kernels, pineapple, sugarcane, and livestock products could be offset by lower output of rice, corn, and rubber.

Southeast Asia is a major net exporter of natural rubber, cocoa beans, coffee, tea, spices, rice, and palm and coconut oil. Rice from Thailand, the world's leading exporter, is especially preferred by Southeast Asian importers such as Malaysia and Singapore, and is marketed worldwide in competition with U.S. rice. The Philippines is the world's leading coconut oil and meal supplier, as well as a major pineapple (second to Thailand) and

banana exporter. Malaysia and Indonesia are the world's top exporters of palm oil and rubber.. Regional palm and coconut oil exports compete with U.S. soybean oil worldwide, particularly in major markets such as India and Pakistan. Despite improved but still relatively low export prices, palm oil output in Malaysia and Indonesia could expand 50 percent or more by 1995.

Palm oil has emerged as a major competitor for soybean oil (produced jointly with soybean meal) in the world vegetable oil markets over the past few decades. Malaysia's share of the world fats and oils market rose from 2 percent in 1960 to 20 percent in 1986. Palm oil likely will continue to compete strongly with soybean oil and other vegetable oils during the rest of the century. Malaysian palm oil output may reach 5.7 million tons in 1990, compared with 4.5 million tons in 1986.

## REGIONAL OVERVIEW

### *Growth Rates Generally Improved in 1986*

The major Southeast Asian economies generally performed better in 1986 than in 1985, with the exception of Indonesia. Malaysia and Singapore each registered real growth of about 2 percent following economic contraction in 1985. The Philippines arrested its severe 2-year economic decline, with real GDP in 1986 virtually unchanged from 1985. The Thai economy continued its moderate growth of slightly less than 4 percent.

In sharp contrast, Indonesian economic performance deteriorated from nearly 2-percent growth in 1985 to an estimated 1.5-percent contraction in 1986, due primarily to a sharp decline in the value of crude oil and liquefied natural gas production, and a smaller rice crop than in 1985. Sharply lower tax revenues from hydrocarbon exports caused Indonesia to cut back on development expenditures. On September 12, 1986, Indonesia devalued the rupiah 31 percent vis-a-vis the U.S. dollar in order to maintain its balance of payments at a comfortable level and sustain the momentum of development.

Table 1 --Southeast Asia: Merchandise exports and imports, 1984-86

Country	Exports 1/			Imports 1/			Trade balance		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Million dollars									
Burma	364	311	295	564	513	316	-200	-202	-21
Indonesia	20,754	18,527	13,139	15,047	12,705	10,896	5,707	5,822	2,243
Laos	45	55	58	162	193	205	-117	-138	-147
Malaysia	16,407	15,137	13,796	13,426	11,562	10,527	2,981	3,575	3,269
Philippines	5,391	4,629	4,784	6,070	5,111	4,876	-679	-482	-92
Singapore	22,662	21,500	21,500	26,734	24,535	23,250	-4,071	3,035	-1,750
Thailand	7,338	7,059	8,773	9,236	8,391	9,602	-1,898	-1,332	-829
Vietnam	763	869	925	1,828	1,955	2,155	-1,065	-1,086	-1,230

1/ Net of shipping costs (free on board or f.o.b. basis).

SOURCES: International Financial Statistics; various country sources; USDA estimates.

Table 2 --Southeast Asia: Selected macroeconomic indicators, 1986

Country	GDP 1/	GDP per person 1/	Real GDP growth 1/	Midyear population	Population growth	Inflation rate	International reserves 2/
	Million dollars	Dollars	Percent	Million	Percent		Million dollars
Cambodia	NA	NA	NA	6.4	1.9	NA	NA
Indonesia	76,000	452	-1.5	168.0	2.2	8.8	5,411
Laos	1,040	280	5.6	3.7	2.9	40.5	21
Malaysia	25,775	1,601	1.8	16.1	2.4	.7	6,127
Philippines	29,620	524	.13	56.5	2.7	.8	2,459
Singapore	18,663 3/	7,178 3/	2.0	2.6	1.2	-1.4	12,932
Thailand	40,189	763	3.8	52.1	1.9	2.7	4,259
Vietnam	15,250	250	4.2	61.0	2.1	300	12

NA = Not available.

1/ Except for Vietnam, converted to dollars at official exchange rates. This may overstate actual dollar value of GDP in countries with overvalued exchange rates, notably Burma, Laos, and Vietnam. 2/ Includes reserve holdings of gold. 3/ GNP rather than GDP as stated in column head.

SOURCES: International Financial Statistics, USDA data and estimates.

Relatively low prices were received for important regional exports such as rubber, palm oil, tin, and petroleum. Because almost all regional economies are export oriented, their rates of economic growth are linked to export market accessibility, aggregate demand, and market prices.

Regional economic growth in 1987 is highly uncertain and constrained by continued low prices for most major export commodities. Indonesia and, to a lesser extent Malaysia, are still suffering from the very sharp decline in petroleum export prices in late 1985 and early 1986. Subsequently, petroleum prices have moved sharply higher but have only offset about half the more than 50-percent decline since late 1985. Economic growth rates in Indonesia and Malaysia may be less than 3 percent in 1987, which represents improved performance. The Singaporean and Philippine economies could register real growth of 3-4 percent as policies to stimulate their economies are increasingly effective. The Philippines has made substantial progress in privatizing Government and quasi-Government corporations, dismantling monopolies, stabilizing foreign exchange rates and reserves, lowering interest rates, and keeping inflation low. Agriculture, viewed as a key to the Philippines' recovery, led the economy with real growth of 3.3 percent. The Thai economic outlook is slightly better, and real growth of 4-5 percent may be realized. In Indonesia, conservative budget policies to

offset the sharp drop in government tax revenues (stemming from reduced oil exports) will slow economic and agricultural development.

#### *Agricultural Trade Important to Regional Development*

Southeast Asia is a major net exporter of natural rubber, cocoa beans, coffee, tea, spices, rice, and palm and coconut oil. Thai rice, which leads world exports, is especially preferred by regional importers such as Malaysia and Singapore, and is also marketed worldwide in competition with U.S. rice (see table 3). The Philippines is the world's leading coconut oil and meal supplier, as well as a major pineapple (second to Thailand) and banana exporter. Malaysia and Indonesia are first and second, respectively, in producing and exporting palm oil and rubber. Regional palm and coconut oil exports compete with U.S. soybean oil worldwide, particularly in major markets such as India and Pakistan. Despite improved but still relatively low export prices, palm oil output in Malaysia and Indonesia could expand 50 percent or more by 1995.

Wheat is a major import of Southeast Asia, where the climate favors domestic production only in Burma. Although rice is the major cereal staple, wheat is an important grain supplement. Indonesian wheat imports rose in 1986 in response to rising retail rice



Table 3 —Southeast Asia: Production, trade, and stocks of selected agricultural commodities, selected years

Commodity 1/	Production	Imports 2/	Exports 2/	Ending stocks
1,000 tons				
Rice (milled)				
1984/85	66,409	1,682	4,890	5,413
1985/86	67,487	1,266	5,249	5,818
1986/87 est.	66,389	1,310	4,583	3,542
Wheat				
1984/85	206	4,046	74	486
1985/86	210	3,876	67	443
1986/87 est.	215	4,305	70	643
Corn				
1984/85	13,908	1,966	3,512	799
1985/86	14,576	1,661	3,816	909
1986/87 est.	14,591	1,878	2,950	842
Cotton 3/				
1984/85	418	2,048	47	591
1985/86	325	2,355	40	701
1986/87 est.	325	2,380	40	766
Vegetable oils				
1984/85	7,907	1,305	6,392	911
1985/86	9,862	1,105	7,593	1,099
1986/87 est.	9,572	1,240	7,536	791
Sugar 4/				
1984/85	6,360	787	2,893	1,584
1985/86	6,099	877	2,580	1,157
1986/87 est.	6,073	989	2,226	1,051

1/ Production and trade data shown for crop year as follows: Rice—January/December except July/June for Philippines; wheat—July/June; corn—October/September; cotton—August/July; vegetable oils—October/September; and sugar—September/August. 2/ Includes trade between countries in Southeast Asia. 3/ Cotton data in thousand 480-pound bales. 4/ Centrifugal sugar, raw sugar basis.

SOURCE: USDA data and estimates.

Table 4 —Southeast Asia: Currencies and 1986 exchange rates

Country	Currency and abbreviation	Exchange rate with US\$	
		Average	Yearend
Burma	Kyat (K)	7.3	7.1
Cambodia	Riel (KR)	NA	30
Indonesia	Rupiah (Rp)	1,283	1,641
Laos	New Kip (NK)	NA	95
Malaysia	Ringgit (\$M)	2.6	2.6
Philippines	Peso (P)	20.4	20.5
Singapore	Singapore \$ (\$S)	2.2	2.2
Thailand	Baht (B)	26.3	26.1
Vietnam	Dong	NA	15.0

NA = Not available.

SOURCES: International Financial Statistics; USDA data.

Philippines, which accounts for about two-thirds of U.S. wheat sales to the region.

Southeast Asia is a net importer of raw cotton for domestic textile industries in Indonesia, Thailand, Malaysia, and the Philippines, which actively seek growing textile export markets in industrialized areas such as the United States, Japan, and Europe. The textile exporting countries are especially concerned about import quotas in markets such as the United States that limit industry sales, growth, and employment. They have threatened to reduce imports of U.S. raw cotton if protectionist sentiment increases further.

### *Farm Output Record High*

Southeast Asian agricultural production rose 2 percent in 1986 to a record high mainly on gains in rice, corn, soybeans, copra, cocoa, and palm oil. Per capita food production remained unchanged from 1985 but was 20 percent above the 1976–78 average. Overall agricultural output in 1987 may show little change from 1986. Gains in production of cassava, soybeans, palm oil, palm kernels, pineapple, sugarcane, and livestock products could be offset by lower output of rice, corn, and rubber. [J. Albert Evans (202) 786-1614]

## U.S. AGRICULTURAL TRADE WITH SOUTHEAST ASIA

### *Downtrend in U.S. Farm Exports To Region Continues*

U.S. agricultural exports to Southeast Asia declined 14 percent in fiscal 1986 to \$724 million (see table 5). This was about 40 percent less than average sales in fiscal 1980–84. The decline was due to strong competition, lower prices for nearly all U.S. commodities, and generally smaller regional import volumes caused by increased self-sufficiency and slower economic growth. The sharp decline in U.S. cotton exports accounted for more than 90 percent of the \$115-million drop in export sales, with the remainder largely due to smaller rice shipments and lower tobacco prices. The downtrend in the U.S. share of Southeast Asia's shrinking farm import market appears to have leveled off in fiscal 1986, with the

prices, which made wheat flour prices more competitive. U.S. export programs enabled a strong rebound in wheat exports to the



Table 5 --Major U.S. agricultural exports to Southeast Asia, by quantity and value, fiscal 1985-1987

Commodity	Value			Volume		
	1985	1986	1987 F	1985	1986	1987 F
-- Million dollars --      --- 1,000 tons ---						
Animal & animal prod.	65	68	83	NA	NA	NA
Beef & veal 1/	7	7	7	1	1	1
Pork 1/	1	--	1	--	--	--
Poultry 1/	29	27	34	28	26	26
Tallow--inedible	3	2	2	6	4	5
Nonfat dry milk	7	12	16	11	17	34
Cattle hides (MNO)	1	1	2	23	22	36
Other animal prod.	17	19	21	NA	NA	NA
Grains & feeds	274	240	220	NA	NA	NA
Wheat & products	202	208	193	1,257	1,462	1,627
Rice	35	6	1	134	24	2
Feed grains	17	1	1	66	1	1
Feeds & fodders	12	17	15	NA	NA	NA
Other	8	8	10	NA	NA	NA
Fruits & prep.	51	53	54	NA	NA	NA
Nuts & prep.	5	5	7	NA	NA	NA
Vegetables & prep.	20	24	24	NA	NA	NA
Oilseeds & prod.	86	112	87	NA	NA	NA
Oilcake & meal	41	76	63	217	356	300
Soybeans	24	20	12	103	94	60
Vegetable oils	21	14	9	24	18	13
Tobacco, unmanu.	121	111	92	18	17	16
Cotton, excl. linters	159	52	150	102	39	160
Other	61	59	62	NA	NA	NA
TOTAL	842	724	779	NA	NA	NA

1/ Fresh, chilled, frozen.-- = None or less than 500 tons, or \$500,000. NA = Not applicable. MNO = 1,000 number. F = Forecast.

SOURCES: Bureau of the Census, U.S. Department of Commerce; USDA estimates.

United States providing 11 percent of the region's \$6.4 billion in agricultural imports (see table 6). The region's agricultural imports averaged \$7.3 billion in 1982-84.

During fiscal 1987, the value of U.S. agricultural exports is forecast to increase 8 percent to about \$780 million. The gain is mainly due to the strong rebound in U.S. cotton sales, which will more than offset lower wheat, soymeal, soybean, and tobacco. Lower U.S. prices coupled with weak, but improving Southeast Asian economies are expected to increase import quantities of all major U.S. bulk commodities, except soymeal and soybeans. Wheat and products are expected to comprise 25 percent of sales, followed by cotton (19 percent), tobacco (12 percent), and oilseeds and products (11 percent). The U.S. share of Southeast Asia's farm import market is anticipated to increase slightly to 12 percent of the region's \$6.3 billion in agricultural imports (see table 6).

Table 6 --U.S. agricultural exports to Southeast Asia by country, fiscal 1982-87

Country	1982	1983	1984	1985	1986	1987 F
Million dollars						
Brunei	--	2	2	2	2	2
Indonesia	432	410	438	204	172	189
Malaysia	134	131	142	98	83	73
Philippines	320	380	300	284	269	277
Singapore	163	142	160	119	115	121
Thailand	155	139	172	134	82	118
Other 1/	3	2	1	1	--	--
Total	1,207	1,206	1,217	842	723	780

U.S. share of total agricultural imports

	Percent					
Brunei	NA	NA	NA	NA	NA	NA
Indonesia	27	29	40	23	15	19
Malaysia	14	11	9	6	6	6
Philippines	40	45	54	47	44	46
Singapore	9	8	6	4	5	5
Thailand	32	24	25	25	24	25
Other 1/	NA	NA	NA	NA	NA	NA
Total	18	17	15	11	11	12

-- = None or less than \$500,000. NA = Not available. F = Forecast. 1/ Burma, Cambodia, Laos, and Vietnam.

SOURCES: Bureau of Census, U.S. Department of Commerce; various country sources; USDA estimates.

## Commodity Highlights

- o *Wheat and products*--Southeast Asia purchased roughly 4.2 million tons of wheat and products during fiscal 1986, nearly 35 percent of which was supplied by the United States. Total imports by the region increased about 9 percent from the year before, mainly because import growth resumed in Indonesia. The U.S. share, however, slipped as Australia captured most of the increase in Indonesian purchases. Indonesian wheat imports rose in response to rising retail rice prices, which made wheat flour prices more competitive. U.S. export programs, namely the Export Enhancement Program and P.L. 480, Title I, enabled a strong rebound in wheat exports to the Philippines, which accounted for nearly two-thirds of U.S. wheat sales to the region.

During fiscal 1987, Southeast Asian wheat imports are forecast at 4.3 million tons (up 3 percent), with low U.S. prices and

export programs producing a gradual recovery in U.S. share, particularly in Indonesia. The region's response to lower U.S. prices is expected to be tempered by intense competition from Australian, Canadian, and to a lesser extent, Argentine and EC supplies. Ample domestic food supplies and modest per capita income growth inhibit stronger growth. U.S. wheat exports to the region are being facilitated by a P.L. 480 Title I program to Indonesia, as well as two Section 416 sugar compensation programs (part of which will extend into fiscal 1988) and a P.L. 480, Title II (Section 202) to the Philippines.

- o *Other grain products*--During fiscal 1986, Southeast Asian coarse grain imports (mostly corn) were up 14 percent to about 1.9 million tons (including intraregional trade). The increase is attributable to import growth by Singapore, Malaysia, and Vietnam. In fiscal 1987, steady demand from Malaysia underlies the expected growth in regional feed grain import demand. Thailand will be virtually the sole supplier, with no U.S. exports anticipated.

Including intraregional trade, rice imports totaled 1.0 million tons in 1986, about 800,000 less than in 1985. The primary reasons for the decline were large Malaysian stocks and regained Philippine self-sufficiency. Thailand remained the top supplier, with U.S. sales virtually nil. During fiscal 1987, regional imports are forecast to increase to about 1.3 million tons, with no U.S. rice exports expected. The increase reflects a rebound in Malaysian purchases and the repayment in-kind rice loan by the Philippines to Indonesia.

- o *Oilseeds and products*--The region's imports of soybeans and products have slowed dramatically in recent years, reflecting the 3 1/2-year economic crisis in the Philippines, self-sufficiency plans in both Thailand and Indonesia, and slower growth in Indonesian consumption. U.S. soybean sales of 94,000 tons were 9 percent less than in fiscal 1985, with the major competitors being China, Brazil, Argentina, and Vietnam. However, U.S. soymeal shipments rebounded 64 percent

to 356,000 tons, primarily due to sharply lower U.S. prices and logistical problems in supplying Chinese meal.

The outlook for fiscal 1987 suggests that the downtrend in U.S. soybean and soymeal exports is continuing. Compared with fiscal 1986, U.S. soybean exports are forecast to decline 36 percent to 60,000 tons and soymeal exports 15 percent to 300,000 tons. The U.S. share of the region's meal imports is forecast to decline to about 27 percent (from 32 percent), and its share of the bean market to 11 percent (from 14 percent). U.S. vegetable oil exports may stabilize slightly, with only residual imports expected by this leading vegetable oil exporting region.

- o *Cotton*--In fiscal 1986, the United States exported 39,000 tons of cotton to the region, down 62 percent in volume and 67 percent in value from fiscal 1985. Sluggish domestic demand and protected foreign markets for textiles had squeezed the region's cotton demand. This changed in August 1986 as cotton prices declined sharply due to implementation of the Food Security Act of 1985, which covers U.S. cotton produced in 1986-90. Under this legislation, negotiable marketing certificates are issued to first handlers of U.S. cotton, enabling competitive pricing of U.S. cotton when world cotton prices are below producer loan repayment rates.

Total regional cotton imports in fiscal 1987 are expected to rise about 2.5 percent from fiscal 1986. The projected volume (160,000 tons) and value (\$150 million) of U.S. cotton exports to Southeast Asia represent sharp increases in U.S. sales across the region. In fiscal 1987, the U.S. share of regional cotton imports is rebounding to about 31 percent (8 percent in fiscal 1986) due to the new U.S. farm legislation, enhanced demand for regional cotton exports, and price incentives that favor greater use of cotton at the expense of synthetic fibers.

- o *Tobacco*--While Southeast Asia is a net exporter of unmanufactured tobacco, with exports roughly 93 percent greater than the 44,600 tons imported in 1986, the region depends on high quality imports for



blending. U.S. tobacco exports in fiscal 1986 were 6 percent lower at 17,000 tons and valued at \$111 million. These levels were well below the fiscal 1982 record of 28,000 tons valued at \$176 million.

The projected decline in U.S. unmanufactured tobacco exports to 16,000 tons in fiscal 1987 results in virtually no change in the U.S. share (44 percent) of the regional market. Chinese supplies dominate the Singapore unmanufactured tobacco market and have made strong inroads in the Indonesian market. This trend is likely to continue in 1987, with decreased U.S. purchases by Malaysia, the Philippines, and Thailand. Thailand will likely draw down tobacco stocks somewhat this year. Malaysia harvested a record crop of flue-cured type tobacco while Indonesian output of similar tobacco was lower because farmers switched land to other crops. [Leslie E. Ross and J. Albert Evans (202) 786-1614]

## BURMA

### *Debt and Deficits*

The centrally planned economy of Burma was able to maintain economic growth of 3.7 percent as planned in fiscal 1986 (April 1986/March 1987) despite unstable world economic conditions that continued to reduce export earnings. Burma's export total of \$304 million in 1986 fell short of the revised target of \$417 million. Foreign exchange reserves fell sharply from a high of \$261 million in 1980 to a record low of \$33 million at the end of 1986.

Burma's foreign debt, most of which has resulted from international development assistance, was almost \$3.7 billion. Because of deteriorating economic conditions, Burma applied to the United Nations for the status of a less developed country (LDC). The LDC status will entitle Burma to international aid relief from its burgeoning external debt.

The target for exports in fiscal 1987 (April/March) is \$475 million and for imports, \$692 million, of which \$50 million would be paid with foreign loans and aid, and the rest with state-owned foreign reserves. The debt

service ratio for the current year is 48 percent of exports.

### *Agricultural Sector Progress*

The agricultural sector improved moderately during the fourth Four Year Plan. The net value of agricultural output increased 6.8 percent in 1982/83, 4.9 percent in 1983/84, 3.0 percent in 1984/85, and 4.2 percent in 1985/86. The average annual increase over the plan is 4.7 percent. Although agriculture could not fully realize the plan targets in some years due to unfavorable weather, there was overall progress due to improved cultivation practices and input availability.

### *Rice Modernization*

Paddy output for the latest harvest was targeted at 15 million tons. It is expected that the actual crop harvest will be 14.8 million tons, slightly smaller than last year's crop. The decline is due to less rain and higher labor costs. An estimated 10 percent of paddy sown was lost due to insufficient rainfall. Farm workers demanded 17 percent higher wages leading to a cutback in the use of hired labor at transplanting time.

Burma plans to spend \$80 million to modernize and rehabilitate rice mills and build better storage facilities to improve the quality of export rice. The modernization plan includes building six new rice mills each with an annual capacity of 30,000 tons, constructing 84,000 tons of storage facilities, and rehabilitating about 120 private mills.

### *New Paddy Procurement Policy*

In the past, the Agricultural and Farm Produce Trade Corporation (AFPTC), under the Ministry of Trade, was the sole government purchaser of rice from the farmers. A farmer could sell to private traders after meeting the quota from the AFPTC. The private rice traders were accused of engaging in black market activities. As the harvesting of the 1987 crop began, new regulations prohibited private traders from handling rice. Instead, the Cooperative Societies under the Ministry of Cooperatives were charged with procuring rice directly rather than acquiring rice from the AFPTC.



On February 1, a new rice distribution system became effective nationwide. The cooperatives were authorized to handle all rice sold at retail, closing down the private rice shops in urban areas. The new distribution system affects primarily urban consumers. Farmers are permitted to keep a sufficient amount of rice for family use before meeting the government quota. It is estimated that about 40 percent of production is retained for farmers' consumption.

### *Farm Modernization*

The Whole Township Extension Program, launched in 1977, aimed at introducing modern cultivation methods. The program was originally targeted at providing fertilizer and other inputs required by high-yielding and faster maturing varieties of rice seed. The success of the program prompted the Government to extend it to 20 other crops including oilseeds, corn, wheat, pulses, and cotton. The program, in conjunction with other research and extension programs, has led to considerable progress in Burmese agriculture. [Jitendar S. Mann (202) 786-1614]

## INDONESIA

### *Indonesia's Economy Falters as Oil and Gas Earnings Plunge*

Indonesia's sluggish economy contracted 1-2 percent in real terms after a minor 2-percent expansion in 1985. Growth of nearly 7 percent in 1984 was sharply above expansion during the worldwide 1982-83 recession and only slightly below average growth experienced during the oil export boom years of the seventies. Economic activity continues to be damaged by low prices, which cut 1986 energy export revenues in half and slashed the nation's total export earnings by 30 percent. High industrial costs based on widespread inefficiencies generally limit the competitiveness of Indonesian exports.

Domestic demand was constrained by a doubling of inflation to nearly 9 percent and by government austerity measures. Unemployment continues to increase while fiscal austerity greatly limits government-funded new jobs. The foremost economic challenge facing Indonesia is generating sustained economic growth and

employment for its rapidly growing and increasingly well-educated population.

The sharp 1986 decline in oil and gas export revenues escalated the current account deficit. This forced the Government to devalue the rupiah by 31 percent against the U.S. dollar, slash spending on investments and farm subsidies, borrow more overseas, and launch limited trade reforms to boost non-oil exports and investment. The 1986/87 (April-March) the government budget was trimmed 7 percent from the previous year, with development spending taking a 22-percent cut. Overseas loans and foreign aid financed the budget deficit.

Sharply lower oil export earnings were more responsible than higher government external debt in causing the debt-service ratio to surge to about 40 percent, very high by international standards. Appreciation of the Japanese yen and the West German mark against the rupiah, and the official rupiah devaluation against the dollar contributed to the growing debt-service burden.

Indonesia's international current account deficit ballooned to an estimated \$4.5 billion in 1986/87 from \$1.8 billion a year earlier, and would have been much higher except for the rupiah devaluation in September. Surplus in the trade account contracted 63 percent to \$2.1 billion. Official international reserves declined slightly to about \$5.6 billion.

### *Duality in Farm Sector Provides Sharp Contrast*

Agriculture is the dominant sector in Indonesia's economy, representing 26 percent of the nation's Gross Domestic Product (GDP). The farm sector consists of two main groups: 14 million small farmers cultivating about 14 million hectares of food crops for domestic use and sometimes for export, and about 2,000 large plantations comprising more than 810,000 hectares and producing perennial crops such as rubber, oil palm, coffee, and tea.

Even though the plantation sector generates a large portion of Indonesia's non-petroleum foreign exchange earnings, small farmers contribute about 60 percent of agricultural sector GDP and employ 54 percent of the labor force. Small farmers



produce 90 percent of Indonesia's coffee and 70 percent of its rubber, but plantations produce nearly all of its palm oil. Of the country's land area of 783,000 square miles, about 73,000 or 9.4 percent are being cultivated, with another 8 percent or so potentially arable.

### *Agricultural Policy Is Broadly Based*

The current Indonesian 5-year economic plan, *Repelita IV*, extends through March 1989 and seeks to maintain self-sufficiency in rice production and to intensify production of secondary food crops. Emphasis is also on opening up new agricultural land; increasing production of plantation crops such as rubber, palm oil, coffee, and tea for export; and developing fishing and forestry. The Government is promoting job-creating industrialization and value-added exports. Particular stress is being placed on developing industries that process food and plantation crops, and fish and timber products, especially for export.

Agricultural production in Indonesia advanced 2 percent in 1986 (compared with 1 percent in 1985), led by impressive gains in secondary food crops, sugarcane, palm oil and kernels, copra, and smaller increases for many other major commodities (see table 7). Outputs of rice, cassava, rubber, and tobacco were lower. Over 1977-86 the average rate of increase in agricultural output was 5.2 percent per year, with the sharpest gains before 1982. Overall grain production (rice and corn) increased to 31.9 million tons during 1986, 6.5 percent above 1985.

### *Rice Output and Stocks Lower*

Rice production in 1986 declined 1.6 percent to 26.1 million tons, milled basis. The combined effects of a serious outbreak of the brown plant hopper on more than 50,000 hectares of rice land, and a slight decline in rice area more than offset increased average yield. To counter the brown plant hopper threat, the Government is requiring farmers in infested areas to plant more resistant but generally lower yielding IR-36, IR-48, and IR-56 varieties for harvest in 1987. Moreover, the Government banned the use on rice of 57 different insecticides, which were declared to no longer provide adequate resistance to the insect.

Table 7 --Indonesia: Production of selected agricultural commodities

Commodity	1985	1986	1987 F	Share of 1986 prod. 1/
	1,000 tons			Percent
Rice (milled)	26,542	26,129	26,300	52.0
Cassava	13,762	13,300	13,700	6.3
Sugarcane	24,901	25,000	25,000	9.3
Rubber	1,159	1,035	1,050	5.4
Copra	1,260	1,300	1,325	3.6
Palm oil	1,208	1,350	1,450	5.9
Coffee	348	348	342	3.0
Total				85.5

1/ See explanatory note following the table of contents. F = Forecast.

SOURCES: Government of Indonesia, USDA estimates.

A new super-intensification program to stimulate rice production is targeted to cover more than 1 million hectares within a year. Previous intensification programs were terminated in 1985 following Indonesia's attainment of rice production self-sufficiency, which may yet prove unsustainable. The new intensification program, like previous similar efforts, provides various inputs including seed, fertilizer, and pesticides to producers at preferential prices. Indonesia, recently the world's leading rice importer, remained self-sufficient in rice in 1986 while exporting 220,000 tons. Government stocks, which had topped out at a burdensome 3.4 million tons in 1985, were drawn down substantially during the year.

The hectareage devoted to rice production was 9.8 million in 1986. During the 1970's, rice area fluctuated between 7.9 and 8.9 million, but it has exceeded 9.0 million every year since 1979 except 1982, when a severe drought reduced plantings for the dry season. Rice production grew at an annual rate of 5.6 percent during 1977-86, while rice area expanded at a 1.9-percent rate.

### *Production of Secondary Food Crops Emphasized*

The major secondary food crops produced in Indonesia are corn, cassava, sweetpotatoes, soybeans, and peanuts. Although the



marketing infrastructure is far from adequate, the Government is increasingly emphasizing production of secondary crops. Corn, cassava, and sweetpotatoes are important in low-income diets, although rice is preferred if available and affordable. In recent years, use of soybeans and peanuts has increased, as they provide a cheaper source of protein than meat and poultry. These crops are usually grown in rotation with rice where scarce irrigation water limits multiple rice crops, and separately or in rotation with each other or rice on unirrigated land.

Corn output rose 24 percent in 1986 to 5.4 million tons due to a sharp expansion in harvested area. Around 70 percent of the nation's corn is for human use, although feed use is growing, especially for dairy cattle, poultry, and swine. The potential for greater corn production is substantial if improved short-season hybrid varieties become widely adopted and use of fertilizer and other major inputs is intensified. Varietal development work continues by the National Seed Board and private companies, but hybrid seed is expensive and not yet widely available. Improvements in marketing infrastructure, widespread planting of hybrids, ample and adequate storage facilities, production credit, and research extension to farmers are needed before corn's potential can be realized.

Domestic soybean production rose 2 percent in 1986, although imports of 375,000 tons were still required, with the United States supplying 14 percent. The People's Republic of China displaced the United States as dominant supplier in 1984-86 through underpricing. All domestic soybeans are consumed as soybean curd products, such as tempe, and tofu, which are eaten as meat supplements or replacements. To satisfy demands of an expanding feed-manufacturing industry, soybean meal imports will continue to increase in the absence of domestic crushing facilities. Indonesia's investment board, BKPM, has approved three domestic soybean-crushing plants. One of these plants, capable of crushing at least 300,000 tons annually, likely will be constructed and operating within the next year or two. Equipment for the plant reportedly has been ordered.

### *Rapid Palm Oil Output Growth Trails Government Target*

In 1986, palm oil output grew 12 percent to 1.35 million tons. Further steady gains are anticipated over the next several years based on net gains in overall producing area and higher average palm oil output per hectare. Yet the government palm oil production target of 2.1 million tons by the end of 1988 will not be realized; 1.6 million tons are more likely.

Oil palm area is expanding with the opening of new land in West Kalimantan and Sumatra. The Government encourages oil palm expansion through Nucleus Estate and Smallholders (NES) land development schemes, although some private companies are now preferring to limit investment risk by forming joint ventures with state-owned plantations. Under NES, the Government fosters private plantations that are responsible for providing extension credit, inputs, marketing, and processing services to smallholders surrounding the plantations.

Palm oil exports in 1986 remained high at 670,000 tons due to an ample domestic supply of coconut oil. Domestic crude palm oil is reportedly in short supply because domestic mandated prices are now below export prices. Low palm oil prices and aggressive marketing in 1985 had boosted exports by 164 percent to an estimated 652,000 tons, enabled by high coconut oil availability in the domestic market. The government restriction on palm oil exports to no more than 10 percent of production was lifted in September 1985 to relieve downward pressure on coconut oil prices.

### *Agricultural Trade Surplus with the United States Declines*

U.S. agricultural exports to Indonesia rose to \$188 million in calendar 1986, 11 percent above 1985. Major commodity percentage shares of these exports were as follows: wheat, 30; cotton, 22; soybeans, 6; soybean meal, 24; and unmanufactured tobacco, 2. U.S. agricultural imports from Indonesia totaled \$679 million, virtually unchanged from 1985. Major commodities and their import percentage shares were rubber and allied gums, 48; coffee and related products, 32; spices, 10; tea, 4; and palm oil, palm kernel



oil, and unmanufactured tobacco, 1 each. The country's agricultural trade surplus with the United States fell 14 percent from 1985 to \$491 million.

#### *Repelita IV Growth Target Recognized as Unattainable*

Repelita IV (April 1984–March 1989) assumed average real economic growth of 5 percent, no increase in petroleum prices, continued budget austerity, and an increasing role for the private sector. Planned annual average growth of 5 percent, 50 percent less than over the previous decade, was jeopardized when export prices for petroleum and natural gas moved sharply lower than budgeted for the past few years. The result is that Indonesia will be fortunate to realize even average real annual growth of 2–3 percent during Repelita IV. Further, a major Repelita IV objective to reduce the share of oil and gas in export earnings from 71 percent to 65 has been exceeded but not as originally envisioned. Sharply lower petroleum and natural gas prices throughout 1986 resulted in the sectors contributing only about half of total export earnings.

Following are government targets for food crop production by 1988, with 1986 estimated production in parentheses: rice, 29.4 million tons (26.1); corn, 6.7 million tons (5.4); sweetpotatoes, 2.6 million tons (2.1); cassava 17.9 million tons (13.3); and soybeans, 1.4 million tons (.9). For every commodity, the production target appears overly optimistic.

#### *Slower Agricultural Growth Expected in 1987*

Farm sector output growth (2 percent in 1986) is projected to decline to about 1 percent in 1987. Rice, sugarcane, rubber, and copra outputs are expected to remain near 1986 levels. Significant gains are forecast in the production of soybeans, palm oil, and palm kernels. Production of palm oil could increase to about 1.45 million tons, 7 percent above 1986. As always, the outcome for rice, which accounts for slightly over half of farm sector output, is crucial to overall agricultural performance. Rice production may increase because of greater plantings due to higher prices. Yet, yields may be held down by

continued brown plant hopper problems, higher fertilizer prices, and the banning of once widely used insecticides. Still, Indonesia is expected to remain self-sufficient in rice in 1987, although excess demand may cause government stocks to be drawn down nearly 40 percent to an uncomfortably low 1.3 million tons.

A major concern to policymakers is the decline in food production per capita, which peaked in 1984 before decreasing slightly. This reflects poorly on measures taken to enhance rice output since the remarkably successful BIMAS, INSUS, and OPSUS programs were terminated in 1985. Officials hope that the new super-intensification program, which is several years from effectively including all rice producers, will reverse the recent mediocre performance of the rice economy.

The 1987 rice harvest is forecast at a record 26.3 million tons, less than 1 percent above 1986. Rains during the 1986/87 rainy season have been well above normal in many areas with some flooding reported, especially along the coast of northern Java. Yet, rainfall in East Java, the leading rice producing area, was well below normal following a late-arriving monsoon that delayed plantings.

Imports of U.S. wheat and cotton are expected to rise in U.S. fiscal 1987, contributing to a possible 10-percent gain in overall U.S. agricultural sales to Indonesia. Major factors that have reduced imports from the United States in recent years include relatively high domestic food production and stocks, intense price competition among exporters, and a desire to conserve foreign exchange.

Because of Indonesia's low per capita income (US\$452) the bulk commodities will continue to lead imports from the United States throughout the eighties. Although Indonesia's status as a developing country makes for a relatively small market in high-value items, the United States was experiencing increasing sales in this area until 1982, when the Indonesian Government placed restrictions on imports classified as "luxury goods." This reduced U.S. sales of apples, pears, grapes, citrus fruits, and wines. [J. Albert Evans (202) 786-1614]



*Economic Downtrend Reversed in 1986*

Malaysia's economy grew only a disappointing 1.8 percent in 1986, led by manufacturing and agriculture. Still, even slight growth was an improvement over 1985 when the economy contracted 1.5 percent, mainly due to slack demand and weakening prices for several important export commodities. Exports typically contribute nearly half of GNP. Sharply fluctuating and lower average export prices for petroleum and palm oil in 1986 were primarily responsible for the \$1.3-billion decline in export revenues. Although lower import prices for grains, cotton, and some other items reduced import expenditures, the merchandise trade balance declined 9 percent to an estimated \$3.3 billion. The deficit in the current account declined to an estimated \$463 million from \$725 million in 1985. Government foreign debt increased sharply, and the debt-service ratio reached a still-manageable 18 percent but continued an uptrend that concerns Malaysian officials and the international financial community. Foreign exchange reserves (excluding gold) increased \$1.1 billion to total \$6.1 billion at year's end (see table 2).

Current GDP growth is far below the 7-8 percent annual average rate during the 1970's and originally targeted for the 1980's. The Fifth Malaysian Plan for 1986-90 targets average real GDP growth at 5 percent, but poor current prospects may translate into realized annual growth of only 2-3 percent. Public development spending in 1986-90 is budgeted at M\$74 billion, compared to M\$80 billion in 1981-85. Since mid-1982 the Government generally has followed a policy of fiscal austerity by limiting spending to reduce budget deficits and external borrowing.

In February 1986, the Industrial Master Policy was devised. The goals of this plan are to speed up development of the manufacturing sector, promote opportunities for the efficient use of Malaysia's abundant natural resources, and lay the groundwork for developing industries through upgrading technological expertise.

Over several decades Malaysia has become much less reliant on rubber and tin exports. Major exports now also include electrical components and products, petroleum, liquefied natural gas, palm oil, and cocoa. Manufacturing provides employment for more than one-sixth of the work force and contributes about a fifth to GDP.

Although agriculture's importance has diminished, it accounts for 21 percent of GDP, provides employment for 34 percent of the work force, and contributes 37 percent of export earnings. Paced by output gains of 10 percent for palm oil, 31 percent for cocoa, and 4 percent for rubber, overall agricultural output increased 3 percent in 1986.

*Smallholder Agriculture Is Highly Subsidized*

Relatively inefficient small farm producers (smallholders) of rubber, rice, coconuts, tobacco, fruits, vegetables, and other crops contribute heavily to the high incidence of poverty in rural areas. Smallholder producers of rubber, rice, coconuts, and tobacco continue as beneficiaries of government policies and programs to increase productivity. For example, small rice farmers are supplied with free seed and fertilizer, interest-free production credit, free irrigation water, and subsidized pesticides. The Government would like to reduce agricultural subsidies but recognizes the political necessity of continuing them selectively.

*Rice Sector Structure and Subsidies Inhibit Innovation*

Production of rice, the major food staple, was 1.2 million tons in 1986, 5 percent less than in 1985 but 19 percent above the flood-reduced extremely low output of 1984 (see table 8). Stocks carried over from 1985 were sufficiently high to enable the National Padi and Rice Board (LPN), the exclusive Malaysian rice importer, to import only 325,000 tons, 24 percent less than in 1985. In the important MUDA Agricultural Development Authority rice growing area, 1986 output was down 13 percent because of



reduced area and lower yields for the dry season rice crop.

Rice is produced at extremely high cost in Malaysia, with subsidies covering more than half of its average production cost. Subsidies and the government import monopoly effectively shield domestic rice producers from the effects of lower international rice prices. Although the guaranteed minimum price to producers has tripled in the last decade, more than half of the 150,000 households that produce rice for income remain in poverty. The Government is seeking to make the domestic industry more productive and economically viable, although not necessarily self-sufficient in rice. However, such policies in the Fifth Malaysia Plan (1985-90) and under the longer term Natural Agricultural Policy face an aging population of rice producers whose average operation is only about 1.3 hectares and who are heavily dependent on hand labor.

Current rice policy is administered primarily by the LPN, which operates a network of rice drying complexes and mills, purchases rice from growers at "floating" support prices (above the government-guaranteed minimum price), and is responsible for importing all rice. To protect consumers, LPN establishes ex-mill, wholesale, and retail ceiling prices for many grades of rice. It monitors rice supply and distribution, and negotiates imports with exporting countries. LPN purchases mainly high-quality milled long grain rice along with small quantities of glutinous and high-quality medium grain rice to meet special seasonal and ethnic requirements. Nearby Thailand, with acceptable-quality cheap rice, dominates Malaysia's market.

#### *Weak Economy Dampens Demand For Wheat*

Malaysia's tropical climate is unsuitable for wheat production. Consumption per capita, 34 kilograms in 1985/86 (July/June), was trending up in the eighties until 1985, when the economy weakened. Population growth and higher real incomes in the future will increase wheat consumption and imports. Domestic production remains highly unlikely. The U.S. 14-percent share of Malaysia's wheat import market is down from nearly 25 percent

in the early eighties. The biggest barrier to improving U.S. wheat sales to Malaysia is the abundant supply of relatively low-priced Australian wheat and extremely competitive prices of Argentine wheat. Malaysian interest has been limited to certain U.S. wheat types including Dark Northern Spring and Western White.

Although Malaysia imports all its wheat, the Ministry of Trade and Industry sets standard ex-factory prices for flour for all of Malaysia, and a maximum retail price for West Malaysia. Virtually no wheat is fed to the growing poultry and swine industries. Malaysian flour mills have free access to the world wheat market, subject only to a 3-percent duty (5 percent on flour). The flour milling business in Malaysia remains highly competitive. Flour importers are licensed in order to protect local millers. There are no direct government subsidies for wheat flour millers.

#### *Poultry and Pork Dominate Livestock Output*

The Malaysian livestock industry, contributing 12 percent of total agricultural output and growing 3-5 percent annually, registered impressive growth and improved profitability in 1986. This resulted in increased imports of corn, soybeans, and soybean meal (see table 8). Although livestock prices were down slightly, producers benefited from much lower feed prices.

Malaysia is essentially self-sufficient in poultry and pork production, but it produces less than half its beef and mutton and has only a limited government-sponsored smallholder dairy industry. Domestic milk production is only about 4 percent of total requirements. Malaysia spends about \$42 million annually to import milk and dairy products, primarily from Australia, New Zealand, and Europe.

Almost no corn is produced in Malaysia, with the little produced going mainly for human use. Imports of 1.3 million tons in 1985/86 (October-September) were 11 percent higher than in 1984/85 and used almost entirely for feed. Thailand continues to supply most imported corn. Feed grains are imported duty-free and traded at prices determined in the market place. Thai corn is preferred by

Table 8 --Malaysia: Area harvested, production, and net imports of cereals and other selected crops

Commodity	Area harvested			Production			Net imports		
	1980-84 average	1985	1986	1980-84 average	1985	1986	1980-84 average	1985	1986
	----- 1,000 ha. -----			----- 1,000 M.T. -----					
<u>Cereals</u>									
Rice	657	649	635	1,195	1,258	1,200	336	430	325
Wheat 1/	--	--	--	--	--	--	537	544	623
Corn 2/	14	15	15	21	25	26	907	1,196	1,330
Other	--	--	--	--	--	--	--	--	--
<u>Other Crops</u>									
Soybeans 2/	--	--	--	--	--	--	163	203	260
Soybean meal 2/	--	--	--	97	107	150	89	148	144
Cotton 3/	--	--	--	--	--	--	28	24	28
Tobacco	12	16	15	8	9	12	4	5	4

1/ Net imports for 12 months beginning July 1 of year shown in column head.

2/ Net imports for 12 months beginning October 1 of year shown in column head.

3/ Net imports for 12 months beginning August 1 of year shown in column head.

SOURCE: USDA estimates.

many importers because of its nearby origin and deep yellow color.

Poultry constitutes more than 50 percent of total meat production in Malaysia and pork about 40 percent. Commercial beef production is limited to only two feedlots and a few privately operated cattle breeding farms. However, several companies, recognizing Malaysia's enormous supplies of palm kernel meal, are considering the development of feedlot operations to supply beef to domestic and Middle East markets.

#### *Soybeans and Soymeal Chief Protein Sources in Feeds*

Malaysia is not only the world's largest producer (and exporter) of palm oil but also produces palm kernel meal for both internal and export markets. Local palm kernel, copra, and fish meals supply protein in locally produced animal feeds, in which soybean meal is most often the chief protein source.

Use of soybeans as food in Malaysia only accounts for about 15 percent of total use; the remaining 85 percent is imported for Malaysia's recently developed crushing industry. Malaysians generally import soybeans and soymeal at the lowest possible

cost. Animal feed production is increasing at an annual rate of 5-10 percent.

Tariffs to protect Malaysia's 7-year-old crushing industry have been insufficient to keep out low-priced Chinese and Brazilian soymeal. The tariff on soymeal is 13 percent. There is no duty on bean imports. However, Malaysia has limited soymeal imports, at 149,000 tons in 1985/86 (October-September), by licensing trade since mid-1983. Cheaper imported beans and meal have virtually eliminated the United States from the Malaysian market. In 1983, the U.S. share of Malaysia's soybean import market was 71 percent; in 1986 it was only 8 percent. U.S. meal has never been able to penetrate this market. China dominates Malaysia's soybean and soymeal import markets, competing primarily with Argentina and Vietnam.

#### *Large Estates Lead Productivity Growth*

Malaysia has a strong comparative advantage in producing tropical tree export crops--especially rubber, oil palm, and cocoa--on large, efficiently managed estates. Output of palm oil and cocoa is still rising, and the Malaysian share of world trade is increasing (see table 9). However, the Malaysian area in rubber continues to decline



Table 9 --Malaysia: Area harvested, production, and exports of major estate crops 1/

Commodity	Area planted			Production			Exports		
	1980-84 average	1985	1986	1980-84 average	1985	1986	1980-84 average	1985	1986
	----- 1,000 ha. -----			----- 1,000 M.T. -----					
Oil palm (palm oil)	1,135	1,468	1,543	3,017	4,132	4,534	2,589	3,191	4,323
Palm kernels 2/	--	--	--	786	1,214	1,333	--	--	--
Palm kernel oil 2/	--	--	--	313	500	591	314	419	520
Rubber	2,013	1,960	1,947	1,526	1,432	1,500	1,483	1,497	1,516
Cocoa beans 3/	185	258	271	61	100	130	58	93	129
Total	3,333	3,686	3,761	--	--	--	--	--	--

1/ Tabular data include relatively small contributions by smallholder operations. 2/ Jointly produced with palm oil. 3/ Exports are bean equivalent.

SOURCE: USDA estimates.

slowly as some estates convert to oil palms or cocoa, hoping for better investment returns.

Malaysia's major export crops, palm oil and rubber, together accounted for 53 percent of 1986 agricultural output. With rice included, the three accounted for about 70 percent of total output. Of the estimated 4.1 million hectares in these crops in 1986, rubber occupied 1.9 million, oil palm 1.5 million, and rice 643,000. The most dramatic growth has occurred in cocoa where the 1986 planted crop area of 271,000 hectares was 39 percent more than average plantings in 1980-84.

#### *Palm Oil Output and Export Volume Hit Record Highs*

Production of crude palm oil surged nearly 10 percent to 4.53 million tons in 1986, although monthly output levels late in the year trailed those for the same months in 1985. As monthly output eased, palm oil prices moved well above the record low of M\$446 per ton in September to end 1986 at about M\$750 or approximately half the record level of April 1985. For much of 1986 crude palm oil prices were reportedly well below production costs for most producers. Early in the year, record monthly palm oil output was exceeding export levels. Stocks grew to a very high 929,000 tons in March, and for most of 1986 were about double comparable levels in 1985. Stocks declined sharply as export demand strengthened during October-December. They

totaled 565,000 tons at year's end, down 37 percent from the January 1 level. To stimulate exports, the Government essentially eliminated export taxes during most of 1986.

The lower-than-anticipated average yield of palm oil per hectare in the last months of 1986 may continue into the summer of 1987 before reversing. Plausible reasons for the lower yields, beyond seasonal variation, include less intensive applications of fertilizer and other inputs during months of extremely low prices in late 1985 and much of 1986, and adverse weather. Heavy rainfall in late 1986 in parts of Malaysia hindered field activities including the harvesting of fresh fruit bunches, thereby increasing spoilage. In addition, there was a tendency not to harvest some of the older and taller low-yielding oil palms when prices were extremely low.

Malaysia faced keen competition in palm oil export markets in 1986. Still, exports (virtually all processed) reached 4.3 million tons, 36 percent more than in 1985 (see table 9). The value of palm and palm kernel oil exports totaled \$1.4 billion, 16 percent less than in 1985. Indonesia, in particular, is providing increasing competition for Malaysian palm oil. India, Pakistan, and Singapore (mainly for reexport) remained the leading 1986 markets for Malaysian processed palm oil, and together accounted for nearly half of the export volume. Shipments to the United States in 1986 rose 51 percent to 246,316 tons.



## *Rubber and Cocoa Production Up in 1986*

Natural rubber production in 1986 increased nearly 5 percent to 1.5 million tons, or about 33 percent of world output. With exports of about 1.5 million tons (3.5 percent over 1985), valued at \$1.3 billion (\$1.2 billion in 1985), rubber was the nation's second largest agricultural foreign exchange earner, trailing only palm oil. Export earnings from rubber in 1986 amounted to 8.9 percent of total export proceeds. The recovery in rubber prices in 1986 is mainly attributed to significantly lower commercial stocks and greater demand for tires by the automobile and tire industries.

In recent years global use of natural rubber has been sluggish partly because of slow economic growth in industrialized countries, and also because of advanced technology, which has made radial tires last longer. Malaysia faces keen competition from other rubber producing countries such as Indonesia and Thailand, which employ cheaper labor. In recent years generally declining real prices for rubber have caused severe economic hardship for many thousands of Malaysia's smallholder producers. Despite the 1986 upturn in rubber prices, competition from palm oil and cocoa remains intense when current rubber producing land is replanted and when newly cleared jungle land is developed for agricultural use. This is especially true in the estate sector.

Cocoa industry growth in Malaysia has been spectacular and profitable during the last decade. The industry appears to be making progress in controlling the cocoa pod borer or moth, the major pest. Because Malaysian beans are relatively high in acidity and shell content, and are small and irregular, export prices are often discounted 3-4 percent. In 1984, the Federal Marketing Authority established a mandatory cocoa bean grading system in Peninsular Malaysia, but growers in the major producing state of Sabah in East Malaysia have declined to implement the grading system. Peninsular Malaysia beans are trading at a premium to Sabah beans. Malaysia's cocoa export competitiveness would be further enhanced with a similar mandatory grading system in Sabah.

Production of cocoa beans surged 30 percent to 130,000 tons in 1986 and may rise

another 15 percent in 1987 to a forecast 150,000 tons (see table 9). Exports in 1986 may have topped \$M260 million, up 15 percent. This continues the impressive industry growth first stimulated by high prices in 1974-78. Malaysia could become the world's third largest cocoa bean producer by 1990, with production to exceed 200,000 tons.

Cocoa prices have declined sharply in the early months of 1987, leading to an agreement by International Cocoa Agreement (ICCA) members to revive price-support arrangements inoperative since 1982. The organization is financing a buffer stock operation funded at \$250 million through an international levy of \$45 per ton on cocoa. With the intention of supporting cocoa prices, buffer stock purchases began May 18, 1987, and totaled 42,000 tons through June 8. The warehoused stockpile is intended to be held until higher prices permit sales. These initial buffer stock purchases have failed to keep world prices of cocoa above the ICCA intervention price, equivalent to 1,600 SDR's per ton. It is not clear whether this cartel approach can be successful because of the organization's limited resources. Malaysia does not belong to the ICCA but is affected by its operations.

### *Policy Focuses on Increasing Agricultural Sector Efficiency and Value*

Malaysia's National Agricultural Policy (NAP) through the year 2000 calls for concentrating on highly profitable crops, such as palm oil and cocoa, and for increasing farm productivity through such innovations as mechanization and pooling of land. Policy guidelines for the palm oil sector emphasize that production should be expanded through the establishment of well-managed estates, the adoption of improved technology, and increased efficiency. The NAP has dropped the long-held goal of self-sufficiency in rice production. It encourages the development of large-scale beef and dairy production, while acknowledging that such operations have not proven profitable in Malaysia. Moreover, the pork, poultry, and egg industries are also anticipated to build on recent growth.

The NAP calls for opening more new agricultural land and seeks solutions to rural poverty by encouraging migration away from overpopulated rural areas to government land,



and for greater production efficiency on existing land. It also recommends continued government support services for farmers, such as credits and extension advice. Central management will attempt to consolidate small uneconomical plots of unused land into larger plots to improve productivity and facilitate mechanization. Continuing efforts in diversification will emphasize the production of fruits and vegetables, and other food crops.

Agricultural sectors targeted for growth under the Fifth Malaysia Plan (FMP) for 1986-90 remain generally consistent with the longer term NAP, although planned growth rates are probably high. Agricultural sector average annual growth would slow to 2.6 percent from 3.4 percent during 1980-85. Agriculture's share of the GDP would decline from 20 percent in 1985 to 18 percent by 1990. Sector export earnings as a proportion of total exports would decline slightly to 28.4 percent. Employment in agriculture would also be down slightly to about 33 percent. Palm oil and cocoa are the major crops planned for area expansion. Rubber output is targeted to increase at the average rate of slightly less than 1 percent per year based on yield increases that more than offset slightly lower producing area.

#### *Agricultural Trade Surplus with the United States Down 10 Percent*

U.S. agricultural exports to Malaysia decreased 17 percent to \$78 million in calendar 1986. Exports of unmanufactured tobacco (\$25.8 million), fruits and preparations (\$12.8 million), cotton (\$3.9 million), and wheat (\$13.3 million) accounted for 72 percent of the total. U.S. agricultural imports from Malaysia totaled \$320 million, 12 percent less than in 1985, with rubber, palm oil, palm kernel oil, coconut oil, and cocoa and cocoa products accounting for 96 percent of the total. The country's agricultural trade surplus with the United States fell 10 percent from 1985 to \$243 million.

Malaysia imposes little or no duties on such basic commodities as rice, corn, wheat, soybeans, and cotton. Higher duties, averaging 30-40 percent, apply to most processed agricultural products. The Government is seeking growth of local food processing to dampen rising food imports.

Overall trade policy objectives are to increase foreign exchange earnings while limiting imports, especially of processed products, through import substitution measures. In 1986, Malaysia's agricultural imports were an estimated \$1.5 billion, of which the U.S. share was 5 percent.

The value of U.S. agricultural exports to Malaysia in U.S. fiscal year 1987 is forecast to grow 10-12 percent to about \$75 million. The bulk commodities--wheat, tobacco, and cotton--will account for 54 percent of anticipated U.S. farm product sales to the country. U.S. cotton exports will be relatively strong and reflect lower fiscal 1987 average export prices despite recent price increases for U.S. cotton. Malaysia's sluggish economic growth and continued intense competition from other major exporters seeking to boost market shares are major reasons behind the lower forecast of U.S. sales.

#### *Sluggish Economic Growth To Extend Through 1987*

Malaysia's economy is recovering slowly despite continuing weakness in the property, construction, hotel/restaurant, and civil service sectors. Growth in 1987 probably won't exceed 2-3 percent and will depend on steady economic progress in the United States, Japan, and Western Europe, and on continued access to foreign markets. Recent significant improvement in export prices of petroleum, palm oil, and rubber improve the macroeconomic outlook even though cocoa prices have dropped sharply and growth in palm oil export volume will likely be minimal. Gains in 1987 production for major crops will be relatively small except for cocoa, whose output could surge 15 percent despite presently low prices. Palm oil and rice production may each grow 2-3 percent or less. Rubber output may fall slightly even if export prices continue to strengthen, reflecting still unfavorable returns relative to those for palm oil. [J. Albert Evans (202) 786-1614]

## THE PHILIPPINES

#### *Economy Ends Backslide*

In 1986, the Philippines arrested 2 years of economic contraction, although growth was



virtually nil. The halt in the economic decline is largely credited to agriculture, which enjoyed record rice and corn harvests, as well as strong recovery in the coconut sector. As a result, rural incomes received a much-needed boost, triggering a modest rise in private consumption. Still, with population growth approaching 2.7 percent, real per capita income fell for the third consecutive year. The reduced balance of payments deficit was generated by a balanced trade account and continued strong growth in services, particularly travel. Inflation, as measured by the change in consumer prices, slowed considerably to under 1 percent, from 23 percent in 1985. Price stability reflects lower oil prices, a relatively stable Philippine peso, and an abundance of food crops.

The Philippines sought to stimulate the economy during 1986 through deficit spending, tax and trade reform, and privatization of most government and quasi-government marketing operations. While the business environment improved, the tenuous political situation stalled business confidence and the recovery. After designing a more growth-oriented strategy with the International Monetary Fund, much of the year was spent in debt rescheduling negotiations, which were concluded by April 1987.

To support pump-priming efforts, the budget deficit widened to \$1.4 billion, 4.7 percent of GNP (1.9 percent in 1985). Although expenditures on infrastructure maintenance and investment were hindered by administration planning delays, the Government did realign budget priorities by halving military expenditures and increasing the allocation to social services. Still, about half of the budget is committed to repaying government loans and sustaining net lending operations.

The industrial sector remained in the doldrums for the third consecutive year. Output declined 4 percent, following a 10.5-percent descent in 1985. Contraction in the construction and mining industries offset growth in the manufacturing and utilities subsectors. Led by expansion in government spending, the service sector turned around in 1986, growing 1 percent.

## Recovery Slated for 1987

The economy is forecast to expand 4 percent in 1987, as the Government's growth-oriented strategy accelerates and total investment grows. This assumes the April agreement that rescheduled nearly half the country's \$28-billion foreign debt will not be derailed. Thus far in 1987, popular acceptance of the new constitution in February and the congressional elections in May have broadened confidence in the Philippines. However, the ongoing communist insurgency and the restive military may continue to limit much needed investment. Strong import growth is expected to accompany the upturn in the economy as depleted inventories are rebuilt. Some improvement in traditional exports and stronger performance in nontraditional exports, such as garments and electronics, suggest the upturn in export earnings begun in 1986 will continue. The overall balance of payments situation will be tight but manageable due to improved prospects for bilateral and multilateral aid and the rescheduling agreement.

## Farm Sector Spurs Economy

Agriculture's contribution to GNP increased to 30 percent in 1986, as farmers benefited from good weather in 1985/86 and

Table 10 --Philippines: Production of selected commodities

Commodity	1985	1986	1987 F	Share of 1986 prod. 1/
	1,000 tons			Percent
Rice (milled)	5,330	5,913	5,870	28.6
Corn	3,439	3,922	4,050	12.5
Copra	1,813	2,431	2,300	10.2
Pork	430	440	450	8.9
Chicken	210	225	250	7.0
Pineapple	1,602	1,635	1,670	6.9
Sugarcane	14,846	13,167	14,000	5.6
Mangoes	384	296	325	4.2
Total				83.9

1/ See explanatory note following table of contents. F = Forecast.

SOURCES: Government of the Philippines; USDA estimates.



better incentives. Commercial crop output was down about 4 percent, because declines in sugar and tobacco outweighed gains in rubber and coconuts (see table 10). However, record rice and corn harvests, combined with growth in fruit, root crops, vegetables, and coffee output were offsetting, resulting in overall growth of 3.3 percent (1.3 percent in 1985).

#### *Drought Hits Food Grain Crops in 1986/87*

During 1986/87 (July/June), a slight decline in rice production is anticipated because of lower prices and drought-induced reductions in area planted to the second (April-June harvested) crop. Rice production is estimated at 5.9 million tons (milled basis). To reduce stocks, the Government reached an agreement with Indonesia to repay in-kind the 1985 Indonesian rice loan of 100,000 tons. Further exports are unlikely because Philippine rice prices are above the world price.

Despite dry weather in some areas, the 1986/87 (July/June) corn harvest is estimated at a record 4.05 million tons, up 3 percent. Area and yield declines during the January-June crop in Bicol and Southern Mindanao are expected to have been more than offset by increases in other areas during the July-December crop. The corn import ban continues. However, inadequate local supply has led to smuggling of corn from Thailand and substitution of feed wheat. Total consumption will continue to expand in response to an estimated 7-percent acceleration of feed use and steady demand for corn food products.

#### *Coconut Output To Drop*

The Philippines is the world's leading supplier of coconut products, which dominate the country's oilseed industry and are cultivated by one-third of the population. In 1986, Philippine copra production recorded a second year of strong growth, reaching 2.4 million tons (up 34 percent). The resumption of copra exports, the dismantling of the milling and trading monopoly exercised by the United Coconut Millers, the drought-reduced coconut harvest in Sri Lanka, the Indonesian ban on copra exports, and the strong rise in coconut product exports led to much improved farmgate prices, despite increased output and very low coconut oil prices through

September. With roughly one-third of the Philippine population involved in the coconut sector, better prices contributed to the improvement in rural incomes and overall growth in the economy. Exports of coconut oil totaled 1.2 million tons (up 89 percent), copra meal 818,000 tons (up 84 percent), and copra 136,000 tons.

After the strong rebound in copra production last year, output is expected to drop 5 percent to 2.3 million tons in 1987. Coconut production tends to decline after a few years of abundant fruiting as the trees regenerate. Most production is expected to be crushed. Copra prices are still about twice that of a year ago but have been slipping in reaction to the proposed European Community (EC) vegetable oils tax and reduced aflatoxin content permitted in copra meal exported to the EC, the large Brazilian soybean harvest, and large U.S. coconut oil stocks. Coconut export estimates call for 1.1 million tons of coconut oil, 600,000 tons of copra meal, and 130,000 tons of copra.

#### *Sugar Crop Lowest in Decade*

The 1986/87 (September/August) sugar harvest is estimated at 1.25 million tons, down 11 percent from a year ago, continuing its descent since 1983. Generally good weather produced average yields, but area harvested fell 10 percent to 248,000 hectares. Although some area has been switched into other crops, much has lain fallow because crop diversification has been hampered by lack of financing and technical support for alternative crops. Exports are forecast to decrease to 224,000 tons, with about two-thirds or 150,000 tons shipped to the United States. The Philippine share of the U.S. sugar quota was raised an additional 2.3 percent in late 1986 to 15.8 percent, because of the transfer of South Africa's share following U.S. sanctions against that country. Nevertheless, the 1985/86 (December/December) quota, at nearly 224,000 tons, was 28 percent less than the 1984/85 (October/November) quota. To offset this loss, the Philippines received a \$32-million U.S. Section 416 sugar compensation program which is being used to import U.S. wheat.

During 1987/88, sugar area is forecast to increase somewhat in response to higher world



prices and increasing domestic demand. Assuming normal weather, sugar output is forecast at 1.35 million tons. Domestic demand is expected to account for 92 percent of production, with exports falling to 150,000 tons.

### *Pineapple Output Edges Up*

Better yields boosted pineapple output to 1.6 million tons, up 2 percent from 1985. Good weather and increased fertilizer use by small-scale producers were the key determinants. Exports rose 2 percent also, largely on the strength of increased demand for pineapple juice, fruit cocktail, and fresh pineapple. The current dry spell is not expected to significantly affect production until 1988, with 1987 production forecast to reach to 1.7 million tons. Although the canned pineapple market is nearly saturated, exports of other products will be offsetting. Stiff competition from Thailand, which replaced the Philippines as the world's leading pineapple producer in 1984, will continue through 1987.

### *Coffee Exports Soar, But Other Crops Mixed*

Good weather benefited the 1985/86 (October/September) coffee crop, which grew by 2 percent to 136,500 tons. Because of the drought-reduced Brazilian crop, coffee prices rose, which led to the suspension of the International Coffee Organization agreement in early 1986. As a result, Philippine coffee exports were up 50 percent to an estimated 44,000 tons. The 1986/87 crop is estimated to have decreased and exports have fallen off.

During 1985/86 (July/June), banana production is increased an estimated 3 percent to 3.8 million tons because of growth in yields, and to a lesser extent area expansion. Growth in 1986/87 output may be hampered by several tornados that swept parts of Mindanao in the latter half of 1986. Even though area expanded, mango production in 1985/86 declined to 296,000 tons (down 23 percent), largely because of typhoon damage in 1985. Increased mango output is expected in 1986/87 as recently planted trees begin bearing fruit. Tobacco output in 1986 fell 4 percent to 65,900 tons as declines in burley and oriental leaf production more than offset increases in flue-cured and cigar leaf production. The

declines are attributed to high stocks of burley leaf and the continuing uptrend of oriental leaf imports because of low quality domestic leaf. During 1987, tobacco production is estimated to drop 7 percent to 61,400 tons due to an expected cutback by planters of flue-cured and oriental leaf.

### *Meat Demand Still Sluggish*

The cattle industry nearly stagnated in 1986, with per capita consumption declining and imports well below historic rates. Beef and veal production is estimated to stay at 84,000 tons through 1987. The swine population probably expanded slightly last year, despite weak domestic demand and tight feed supplies. High pork prices led to increased slaughter and pork production of 440,000 tons, up 2 percent. Pork consumption should begin recovering in 1987, as hog producers expand inventories and more moderate prices prevail. Poultry meat production was flat at 210,000 tons in 1986, while raisers rebuilt flocks in response to lower interest rates and relatively lower feed costs. As a result, poultry meat output is projected to grow to 225,000 tons in 1987.

### *Farm Policy Reforms*

During 1986, the Government made progress in removing biases against agriculture through policy and institutional reform. Measures included the following: turning over the agricultural products trade to the private sector; phasing out price controls; lifting the ban on copra exports and new milling facilities; abolishing all export taxes, except on logs; exempting fertilizer from import duties and discontinuing the levy of 10-peso-per-50-kilogram bag on fertilizer; centralizing agricultural loans under the Comprehensive Loan Fund; and consolidating all agricultural agencies under the Department of Agriculture (renamed in the 1986 constitution). In addition, the Government has been reviewing the tariff schedule and adjusting the exchange rate policy, so that Philippine products are competitive in the world market and resources are more efficiently allocated. In the past, policies encouraged directing resources toward the industrial sector (and away from agriculture) but did not encourage competitive pricing. Moreover, land reform, a top Government



priority, is expected to be expanded by the newly-elected Congress.

Significant policy changes occurred in the sugar industry during 1986. With the dissolution of the Philippine Sugar Commission (PHILSUMA), domestic and export marketing of sugar has been turned over to the private sector and the warehouse receipt system has been reinstated. The Sugar Regulatory Agency will direct the divestiture of PHILSUMA, conduct research, and oversee the quota system. Production quotas are set considering the U.S. market, the domestic market, stocks, and anticipated sales to the rest of the world.

#### *U.S. Farm Exports To Rise*

During fiscal 1986 (October/September), the value of U.S. agricultural exports to the Philippines declined 5 percent, largely due to lower prices for U.S. wheat and dramatically lower cotton shipments. In addition, a corn import ban, strong soybean meal competition, and rice self-sufficiency scaled back exports of those commodities. U.S. export programs, namely the Export Enhancement Program (EEP) and P.L. 480, Title I, enabled a strong rebound in wheat exports to the Philippines. Still, the U.S. share of the declining Philippine agricultural import market is estimated to have slipped to about 44 percent. The U.S. agricultural trade deficit with the Philippines is forecast to have widened, as increased coffee export earnings by the Philippines more than offset the reduced U.S. sugar quota and lower coconut oil prices.

In fiscal 1987, U.S. agricultural exports to the Philippines are forecast to increase to nearly \$280 million, as wheat, cotton, soybean meal, and nonfat dry milk shipments grow. U.S. wheat exports are being facilitated by the Section 416 sugar compensation programs (part of which will carry over to fiscal 1988) and a P.L. 480, Title II (Section 202) program. However, competitive pricing from Canada is challenging wheat exports. An EEP for barley malt has also been offered. Lower U.S. cotton prices are causing a rebound in the U.S. share of the Philippine cotton market. Nonfat dry milk exports, largely under P.L. 480, Title II, are programmed to increase in response to increased need in the countryside. [Leslie E. Ross (202) 786-1614]

## SINGAPORE

### *Economy Rebounds Unevenly*

Singapore's economy reversed in 1986 to register 2-percent real growth after contracting 2 percent in 1985. Comparable growth of 3-6 percent is forecast through the eighties. For more than two decades, Singapore experienced rapid 7-10 percent annual real economic growth and increasing prosperity. Nominal per capita income reached \$7,123 in 1986, among the highest in Asia.

The economic contraction of 1985 resulted primarily from external factors: slumping world demand for petroleum and shipping; declining demand for transshipment trade, tourism, finance, and business services; and less demand for products of certain manufacturing sectors, including the young electronics industry. The high-wage policy dating from the early eighties was blamed for the nation's loss of competitiveness to Hong Kong, Taiwan, and Korea.

To rejuvenate the economy, the Government adopted policies to stimulate spending and investment. The new program features tax reductions, reduced payments by employers into the Central Provident (old age retirement) Fund, and wage restraints. Several sectors of the economy are still weak. There continues to be a glut in the real estate market, and related difficulties in construction and manufacturing; excess hotel space abounds while tourism has dropped off; and sluggish growth throughout ASEAN (Association of Southeast Asian Nations) is still curbing Singapore's transshipment trade. The nation has identified 14 potential growth sectors for the next 10-15 years, including biotechnology, computer products, specialty chemicals, and telecommunications equipment and services.

### *Strong Trade Orientation Necessary*

Singapore is vitally dependent on trade because of its extremely limited natural resources and increasingly important export-oriented manufacturing sector. Located at the crossroads of international shipping and air routes in Southeast Asia, Singapore is a center for transportation and communications. Its principal economic roles



in Southeast Asia include: (1) processing, packaging, and marketing regional raw materials; (2) distributing within the region the manufactured products of industrialized countries; and (3) conducting trade-related activities, such as banking, shipping, insurance, and storage.

Previously, up to two-thirds of Singapore's total trade consisted of transshipping, but transshipping's relative importance has declined, because of shifts toward importing capital goods and materials for industry, and exporting locally manufactured products.

The country imports at least 80 percent of the food consumed by its 2.6 million people, spending more than \$1 billion annually. U.S. agricultural products face a highly competitive and diversified market in Singapore, which is basically a duty-free port without trade restrictions. Total U.S. shipments to Singapore amounted to \$118 million in calendar 1986, up 4.5 percent from 1985. Leading items were chicken meats (\$25.7 million), fresh fruits (\$22.5 million), sugar and tropical products (\$14.3 million), vegetables and preparations (\$11.9 million), grains and feeds (\$8.2 million), vegetable oils and waxes (\$4.8 million), nuts and preparations (\$3.7 million), and unmanufactured flue-cured tobacco (\$3.6 million).

U.S. agricultural imports from Singapore (mostly transshipments) totaled \$76 million, the major commodities being coffee and coffee products (\$19.7 million), crude rubber and allied gums (\$17.9 million), vegetable products (\$14.8 million), cocoa and products (\$14.2 million), palm oil (\$3.8 million), fruits and preparations (\$3.2 million), and feathers and down (\$2.3 million).

#### *Agriculture Sector Is Small and Shrinking*

Agricultural production accounts for less than 1 percent of the nation's GDP. Singapore's farmland will continue to shrink. Its cultivatable land is mainly used for intensive production of vegetables and other food crops. Singapore's production of food varies, from about 20 percent of its vegetable needs to more than half of its poultry and pork requirements.

In the 1990's, Singapore's total land available for farming may be limited to 1,500 hectares, with farmers to be grouped in high-technology research and development parks. Land would be leased to local farmers and investors and to multinational agro-based companies for horticulture, fish and aquarium farming, poultry and bird breeding, crocodile breeding, and dairy cattle and frog farming.

#### *Grains Are Totally Imported*

Rice, the major cereal staple, is totally imported (around 200,000 tons annually), both by private importers and *Intraco*, a quasi-government trading company. Consumers prefer long grain fragrant Thai rice to cheaper varieties from Pakistan and China. Thailand supplies more than 90 percent of rice needs. Imports of U.S. rice in U.S. fiscal years 1980-86 ranged from a low of 219 tons to a high of 8,015 tons.

Singapore wheat imports (excluding flour) in the eighties have declined from 331,000 tons in 1980 to about 200,000 tons currently. This reflects a decline in transshipped wheat, because domestic use has increased. In only 1984 did the U.S. share of Singapore's wheat import market top 20 percent; otherwise it ranged from 10 to 15 percent. It is currently at the low end of the range. Competition from imports of Malaysian and Japanese flour during the last few years has adversely affected U.S. wheat sales. The major supplier in Singapore's wheat market is Australia.

Singapore's feed corn imports have grown, although very irregularly to about 450,000 tons. Over the long term, Thailand, with three-fourths of the market, has been the dominant supplier. In 1985 the Thai share was 77 percent, followed by China and Vietnam, both having less than 10-percent shares. The U.S. share since 1980 has been virtually nil.

#### *Livestock Sector in Flux*

Imported soybeans retained in Singapore are crushed to support the local hog and poultry industries. Total annual retained imports are running about 15,000 tons. Canada and China are the major suppliers of beans, and China is a major supplier of meal. Canadian beans, produced only in the Province of Ontario, are imported for food use. Imports of U.S. soybeans have been nil since 1980.



During 1984 the Singapore Government announced plans to phase out production of hogs and poultry in order to alleviate pollution and free up land for other uses. Most licenses of smaller farms were not renewed as they expired. However, larger hog operations, which do not present the pollution risk of smaller farms, were allowed to expand. An intense promotional campaign encouraging consumers to switch to frozen pork from fresh, the traditional favorite, was carried out in January 1985. A policy change favoring frozen pork, to be imported, was consistent with then-stated intentions to phase out hog production in Singapore. Also, health regulations were liberalized to allow meat imports from countries that previously were restricted. Imports of both frozen pork and chicken will increase if domestic pork production falls.

It appears certain that local production of pork and chicken will still exist in 1990. Because the announced government deadline to have hog farming phased out by June 1986 was not met, and because of protests and the political implications of adding to unemployment, the long-term future of these industries within Singapore must be viewed as speculative. Still, production is expanding at Singapore's joint-venture operations in nearby countries. Increasingly, imports of feed grains, soybeans, and soybean meal will be reexported to surrounding countries. Singapore also has an aquaculture (fish farming) program that is expanding and using increasing quantities of soybean meal.

A recently expanded joint-venture operation on nearby Indonesia-owned Bulan island is expected to be able to supply about 500,000 hogs annually to Singapore for local slaughter. In September 1986, 687 U.S. breeder hogs were flown into Singapore for transporting to the joint-venture site, with other shipments to follow.

In the longer term, further economic and population growth will increase demands for a wide range of imported agricultural commodities. Many supplier countries will be vying to maintain or increase their commodity shares in this growing market.

### *U.S. Farm Product Sales to Singapore To Rise*

The forecast value of U.S. agricultural exports to Singapore in U.S. fiscal 1987 is about \$120 million, 5 percent more than a year earlier. Sales of poultry meat (26 percent), fruits and preparations (27 percent), and vegetable preparations and products (24 percent) will account for 77 percent of anticipated U.S. farm product sales.

The United States supplied \$46 million of horticultural products to Singapore in 1986, about 15 percent of Singapore's total fruit and vegetable imports. Horticultural product imports have grown rapidly with the increasing adoption of western-style eating habits since the mid-seventies. The main U.S. horticultural exports to Singapore are oranges, apples, grapes, orange juice, canned fruit, canned corn, frozen french fries, and almonds. Major competition comes from Australia, Israel, and the European Community. Further growth in the health food and specialty products sectors will provide opportunities for the United States to participate through increased sales and improved market share.

Singapore's poultry meat imports may top \$30 million in fiscal 1987, 18 percent higher than in fiscal 1986. Imports of U.S. poultry meat center almost exclusively on frozen chicken parts, of which the United States supplies 80 percent of Singapore's market. Rapid import growth in chicken parts during 1975-82 culminated in record U.S. sales of \$36 million in fiscal 1982. Subsequent demand has more or less varied from year to year with no discernible trend evident. If domestic poultry production is phased out over the longer term, joint-venture poultry production in nearby countries may eventually limit or reduce Singapore's poultry meat import market.

### *Increasing Competition in High-Value and Value-Added Products*

The U.S. shares of Singapore's fresh fruit and poultry parts markets have expanded significantly, while only marginal increases were registered for dairy, fruit, and vegetable products. Moreover, the U.S. competitive position has weakened in cereal products, nuts, beverages, sugar and confectionary items,



saucers, spices, miscellaneous food items, and fresh vegetables. Disturbingly, the declines in U.S. market shares are occurring mainly in commodity groupings with the highest import growth rates. The U.S. share of Singapore's agricultural import market is now only 5 percent, compared with a 9-percent average in 1980-84. Several Southeast Asian countries, including Singapore, are focusing more on high-value and value-added agricultural products, thereby reducing or eliminating previous drains on foreign exchange, and possibly creating export revenues. Such successful efforts have tended to diminish the effects of U.S. efforts to maintain or increase its overall share of Singapore's agricultural import market. Nevertheless, it seems likely that Singapore will continue to be an important market and transshipment point for competitively priced U.S. raw materials for domestic use or further processing, and for comparable high-value U.S. commodities that are not produced competitively in the region. [*J. Albert Evans (202) 786-1614*]

## THAILAND

Thailand's real GDP grew about 4 percent in 1986, slightly above 1985, largely because of strong exports and a lower oil import bill. While below historic growth rates, Thailand was the star performer in the Association of Southeast Asian Nations (ASEAN). Gains in trade, tourism, and construction offset stagnant domestic demand and agricultural performance. Poor weather and the continuing decline in farm prices brought farm sector growth to a standstill. The country's trade deficit narrowed sharply during 1986, helping produce a current account surplus for the first time in a decade. Inflation, as measured by the change in consumer prices, slowed to 1.9 percent. Lower energy costs, abundant food supplies, and falling interest rates contributed to price stability.

Thailand's economic policy is a combination of austere government spending, expansionary fiscal measures, and a relaxed monetary stance. During 1986, policymakers aimed to stimulate the economy, while capping foreign borrowing and the national budget deficit. Facing sluggish early year growth, the Government cut taxes and lowered utility rates. As a result, tax revenue fell and

the national budget deficit increased 2.4 percent (3.6 percent of GNP). To minimize foreign borrowing, domestic sources were used to finance the budget deficit.

### *Trade Sector Surpasses Expectations, Fuels Economy*

The major impetus for growth in 1986, however, came from the trade sector. Despite low commodity prices and protectionism abroad, export earnings rose a surprising 19 percent. Solid advances in tourism receipts as well as exports of textiles, integrated circuits, gems and jewelry, seafood products, and frozen poultry set the pace. Import expenditures fell 2 percent as local energy supplies rose and low global oil prices reduced the oil import bill 40 percent. In sum, the merchandise trade deficit shrank by two-thirds to \$770 million, and Thailand's foreign debt service fell to 27 percent of export earnings. The improved trade position led to a \$38-million current account surplus, which boosted international reserves to \$3.8 billion.

Lower interest, tax, water, and electricity rates further buoyed the economy. Interest rates were lowered several times during 1986, in response to high domestic liquidity and softening world rates. The exchange rate policy of a managed float also facilitated economic growth by enhancing stability for exporters. In particular, the sharp appreciation of the Japanese yen increased Thailand's exports to Japan, its largest market.

Facing with sluggish demand at home, industrial output accelerated to 5 percent (2.2 percent in 1985) as export demand for textiles, canned seafood products, integrated circuits, and other manufactured products rose. Construction was up 1 percent, largely due to an increase in private housing projects in Bangkok. While domestic savings rose to their highest level in the 1980's, total investment was nearly flat because modest expansion by the private sector was offset by a slight decline in the public sector.

### *Stronger Growth Projected in 1987*

The dramatic and largely unexpected improvement in Thailand's current account has bolstered confidence in Thailand's economy,



which is expected to accelerate and sustain 5-percent annual growth during the Sixth Five Year Plan (1986-91). The Plan began on October 1, 1986, and depends upon private initiative, as the budget deficit limits the Government's ability to stimulate the economy. In 1987, strong growth in the nonagricultural sector and better, but still weak, agricultural performance is expected. With low energy prices and interest rates, private sector investment is forecast to expand. The balance of payments is still expected to show a surplus, although the trade deficit will probably worsen as imports increase and reduced supplies of some agricultural goods cause export growth to slow.

### *Farm Sector Stagnates*

Following several years of slow growth, Thailand's agriculture stagnated in 1986, chiefly because of falling commodity prices and poor weather for several key commodities. Rice, corn, sorghum, sugar, and tobacco industries suffered losses, while gains were registered for livestock, several plantation crops, and fisheries (see table 11). Agriculture's contribution to GNP continued its downtrend, registering 17 percent in 1986.

### *Agriculture's Role in the Sixth Plan*

In anticipation of further deterioration in the terms of trade for Thailand's traditional agricultural exports, the Plan proposes 1) diversifying crop production, 2) promoting the

livestock sector, 3) developing regional agro-industries, and 4) reforestation. The Plan is designed to offset the adverse effects likely to occur to export earnings and farm income. Soybeans, cotton, dairy products, and to a lesser extent wheat are the import-substitution commodities being emphasized. The high-value products being promoted include fresh fruit and vegetables, cut flowers, and meat products. However, inadequate processing infrastructure and marketing channels may hamper this transition in the near term.

### *Rice and Corn Output To Fall In 1986/87*

Thailand's rice crop fell almost 9 percent to 11.9 million tons in 1986/87 (wet season 1986, dry season 1987). The main wet season crop was damaged by drought that occurred during the transplanting and flowering stages. Area planted declined an estimated 4 percent, mostly due to inadequate water supplies in the wet season, but also because low prices, government incentives to diversify into higher-value crops, and inadequate irrigation levels led to reduced plantings in the dry season. Still, rice accounts for about 60 percent of farmland and contributes more than 40 percent to total crop value. Largely because of the reduced crop, rice exports are expected to drop to 3.7 million tons, down 14 percent from 1986.

Coarse grain output in 1986/87 (July/June) plummeted to 4.4 million tons, chiefly because corn output fell nearly 25 percent to 4.1 million tons. Corn yields dropped primarily because of severe drought, but also because low prices at planting led to some reduction in area and use of improved seeds. Exports are also expected to fall by nearly 25 percent to 2.8 million tons, because of the reduced harvest, strong U.S. competition, as well as solid demand from local poultry and swine operations, which are expected to boost feed use by 15 percent to 1.5 million tons. Sorghum production in 1986/87 decreased 6 percent to 300,000 tons as prices continued to trend downward. Even with growing demand from Taiwan, exports are unlikely to recover to the 1984/85 peak of 342,000 tons, but will be near 270-280,000 tons. Thailand has not yet found new markets to replace the loss of its primary market, Saudi Arabia, where policy changes currently

Table 11 --Thailand: Production of selected commodities

Commodity	1984/85	1985/86	1986/87 <sup>F</sup>	Share of 1985/86 prod. 1/
	1,000 tons			Percent
Rice (milled)	13,137	13,002	11,880	48.6
Rubber	617	773	780	10.6
Cassava	19,263	17,220	19,985	9.5
Sugarcane	25,053	24,000	24,500	8.8
Corn	4,350	5,350	4,100	8.6
Tobacco	76	63	66	2.4
Total				88.5

F = Forecast. 1/ See explanatory note following table of contents.

SOURCES: Government of Thailand; USDA estimates.



favor supplies from Sudan. Local demand may increase somewhat as tapioca factories blend sorghum with tapioca chips to produce tapioca pellets.

#### *Rising Cassava Supplies in 1987*

Cassava production in 1987 is estimated to increase about 15 percent, largely because better prices have encouraged farmers to enlarge area. With cassava root production reaching 19.2 million tons, an estimated 7.7 million tons of tapioca products will be processed. Export availabilities are likely to be high. However, little growth in the EC quota and declining markets elsewhere suggest a large buildup in stocks and a 6-percent decline in exports to 6.2 million tons.

#### *Uptrend in Soybean Output*

Thailand's oilseed production declined 4 percent to 598,000 tons in 1986/87 (September/August) because of the drop in cottonseed output. Soybeans, accounting for 50 percent of total oilseed output, are forecast to increase by nearly 4 percent because of high prices and better seeds. Still shy of soybean self-sufficiency, the Government protects producers by licensing soyoil and soybean imports (no bean imports have occurred since 1982) and requiring soymeal importers to purchase 2 tons of domestic meal for every 3 tons imported.

#### *Sugar Harvests Expanding*

Sugarcane production is estimated to be up slightly in 1986/87 (December/November) as rains in late 1986 offset losses from midyear drought. Because of low world prices, the Government has tried to encourage growers to shift out of sugar, while supporting farmgate prices by keeping retail prices of white and refined sugar at 21 and 23 cents per pound, respectively. As a result, area planted has remained largely unchanged. Even though exports are forecast to decline by nearly 14 percent to 1.8 million tons, Thailand is expected to be one of the world's leading exporters. In addition, molasses output is forecast to fall slightly to 1.2 million tons because of low cane quality. Molasses exports are unlikely to repeat the strong performance of 1986, but drop by one-quarter to 650,000 tons. Demand remains slack from Thailand's alcohol industry.

#### *Cotton Output Hits 10-Year Low*

Cotton production fell to its lowest level in a decade in 1986/87 (August/July). The 13,000-ton harvest is 62 percent below a year earlier, largely because of a dramatic drop in area as farmers faced low prices and inadequate financing at planting. Strong demand from the country's textile industry and reduced production caused cotton imports to increase 14 percent to 195,000 tons, while exports fell to 6,000 tons. Because of better prices by late 1986, vigorous export-led demand from the textile sector, and import-substitution plans, cotton production is expected to rebound in 1987/88.

#### *Most Other Crops To Improve in 1986/87*

The performance of most other crops deteriorated in 1985/86, but is expected to improve in 1986/87. The downtrend in tobacco production, prompted by falling prices due to sluggish export demand, may be arrested in 1986/87. While no pickup in export demand is expected, the low level of tobacco stocks is forecast to strengthen prices somewhat, resulting in slight increases in area and production. Pineapple production declined in 1985/86 due to low prices and drought. Still, Thailand has led world pineapple production since 1984, and was able to significantly increase exports of fresh pineapple and products. Strengthening pineapple prices since mid-1986 are expected to lead to a recovery in output in 1986/87.

Dry weather also reduced output of vegetables and other fruits, but with normal weather in 1987, production should rebound. Coffee production rose 12 percent in 1985/86 (October/September) as trees matured. Although export volume did not increase, earnings did as the shortfall in Brazilian production pushed up world prices and led to the suspension of International Coffee Organization (ICO) export quotas in early 1986. The outlook for 1986/87 calls for coffee output to increase, but at a slower rate because of falling prices. In addition, maturing trees caused rubber output to increase substantially in 1986, with exports reaching a record 763,000 tons. Further growth is expected in 1987, as the recently reduced export tax makes Thai rubber increasingly competitive.



Area devoted to pulses expanded in 1986, as farmers responded to attractive black matpe prices. Yields, however, were low as dry weather at planting and heavy rains at harvest resulted in poor quality beans. Stocks are likely to continue to build through 1987, because of only small growth in domestic consumption and weak export demand. Bean exports, at 166,000 tons, were off by nearly one-third in 1986, mainly because China undercut Thai prices in Thailand's major market, India. No export growth is expected in 1987, largely due to India's recent imposition of a 25-percent tax on bean imports, aimed at protecting its producers.

#### *Exports Drive Broiler Industry*

The rapid development in Thailand's livestock sector has been spearheaded by growth in the swine and poultry industries, while water buffalo and cattle operations have stagnated at 11 million head. Broiler production rose 10 percent to 431,000 tons in 1986, as declining feed grain costs and booming export demand encouraged expansion. Slightly slower but still strong growth is expected in 1987, as the improving economy spurs domestic demand. In addition, the strengthening of the Japanese yen and the reduction in Japan's import levy for boneless chicken are expected to boost exports again to Japan, Thailand's major overseas market. After decreasing about 5-10 percent in 1986, better hog prices are expected to lead to moderate expansion in 1987. Hog numbers are estimated at 5-6 million head. Pork and live hog exports are expected to recover as output increases and local prices begin falling during the second half of 1987.

#### *Dairy Targeted in Sixth Plan*

While local demand for beef remains low due to its relatively high price and low quality, the cattle industry may benefit from low feed grain prices, planned cattle imports of 10,000 head, and a \$400-million credit line offered to cattle raisers in 1987. Dairy herds and milk production are growing, yet supply less than 15 percent of domestic milk consumption. The dairy industry is targeted for growth in the Sixth Plan, in an effort to encourage farmers to diversify from traditional crops to higher value products and out of concern for radiation contamination in EC products imported after the Chernobyl accident.

Self-sufficiency is unlikely in the near term, with healthy increases in domestic demand being met by imports. The Government will continue to protect domestic dairy producers by requiring importers to purchase 20 units of local milk for each unit imported.

#### *Agricultural Trade Surplus Grows*

Agricultural commodities accounted for 53 percent of total exports, slightly below the reduced performance of 1985 and well below the roughly 60-percent average in 1981-84. Still, agricultural export earnings increased 14 percent from the previous year (see table 12). Rapid growth in exports of poultry and seafood products and better prices for coffee and cassava accounted for much of the increase. In addition, larger shipments of some goods, such as corn and sugar, offset generally lower prices. Agricultural imports, accounting for less than 10 percent of total imports, increased largely to satisfy growing demand for dairy products, cotton, wheat, tobacco, and feed ingredients. Because of lower prices for many of these imports, Thailand's agricultural trade surplus widened by 22 percent to \$3.9 billion.

Table 12 --Thai agricultural exports, 1985 and 1986<sup>1/</sup>

Commodity	Volume		Value	
	1985	1986F	1985	1986F
	1,000 tons		Million dollars	
Rice (milled)	4,062	4,321	768	750
Cassava products	7,705	6,888	568	510
Sugar (raw eq.)	1,856	2,100	238	280
Rubber	690	760	516	565
Corn	2,752	3,771	290	350
Fishery prod.	NA	NA	141	170
Tobacco	33	32	60	59
Pineapple prod.	NA	NA	137	150
Mung & black matpe beans	234	180	87	65
Poultry	38	75	56	115
Sorghum	317	270	40	25
Molasses	897	1,090	29	35
Orchids	7,781	5,675	16	13
Other	NA	NA	949	1,593
Total	NA	NA	3,895	4,680

<sup>1/</sup> Calendar years.

NA = Not available.

SOURCES: Board of Trade, Thailand; USDA estimates.



Agricultural trade policy did not undergo major changes during 1986, yet trade policy figured prominently in the public eye. Considering the dominant role agriculture plays in the Thai economy and its importance to export earnings, Thailand vigorously objected to the rice and corn policies of the U.S. Food Security Act (FSA), particularly the rice marketing loan provision. Thailand argued that it has not used unfair trading practices, which the FSA was partially designed to counter, and in fact has taxed rice and several other agricultural exports. In mid-1986, the outcry widened to include sugar because the United States exported 148,000 tons of sugar to China, one of Thailand's major sugar markets.

While the debate continues over the FSA's impact on world prices, shipments of many of Thailand's agricultural products actually reached record or near-record levels. Rice exports rose 3 percent to 4.3 million tons, the second highest level on record. Thailand continued to be the world's leading rice exporter, supplying more than one-third of the market. Rice earnings, however, fell as the average price dipped nearly 20 percent to \$173 per ton. Although rice prices had been declining over the last 5 years, the following factors influenced the export price in 1986: 1) Thailand's exports of low-quality rice increased by 43 percent, partly because stockpiling restrictions and minimum export prices for broken rice were lifted; 2) several large, high-value markets such as Malaysia and Iran significantly reduced purchases from Thailand, and 3) price undercutting occurred among private Thai exporters.

To support Thailand's rice farmers, a myriad of programs were initiated in 1986. The Bank of Agriculture and Agricultural Cooperatives' (BAAC) \$194-million loan scheme appears to have been the most effective at raising farmgate prices. The BAAC program is credited with keeping more than 2 million tons off the market by loaning the farmer 80 percent of the value of the rice, with the rice used as collateral. Repayment is scheduled for July 1, 1987, at 3 percent interest. As harvesting of the main rice crop began in late 1986, the Thai Government

began increasing its purchases and sales of rice in an effort to defend farmgate prices. These sales, totaling about 700,000 tons, were below cost yet were largely to non-U.S. markets, such as Iran, China, and Malaysia. In addition, Thailand's largest agribusiness firm plans to improve Thai rice quality by supplying modern facilities and quality inputs, as well as actively managing production and marketing. Rather than trying to compete in the low-quality market, the company believes Thailand's comparative advantage lies in the high-quality market.

Corn exports reached a record 4 million tons in 1986, positioning Thailand as the world's fourth largest exporter. The U.S. corn program did not become effective until late 1986, minimizing its impact on Thailand's 1986 export shipments. However, world prices began falling by mid-1986 in response to weak world demand, expectations for a large U.S. harvest, and the forthcoming reduction of the U.S. loan rate for corn. With the FSA expected to have a greater impact in 1987, Thai farmers are likely to respond by shifting some corn land into soybeans and other higher value crops.

However, Thailand has benefited from the FSA through its lowering of cotton and wheat prices. An estimated \$85 million was saved on cotton imports alone. In addition, a U.S. credit guarantee program is being used to reduce outlays for dairy cattle imports, while a \$1.9-million Section 416 sugar compensation program is currently allocated to import U.S. wheat.

#### *U.S. Farm Exports To Rise in Fiscal 1987*

The value of U.S. agricultural exports to Thailand during fiscal 1986 fell dramatically to \$82 million, down nearly 40 percent from the previous year. The \$36-million decrease in cotton exports was largely responsible, as relatively high U.S. cotton prices caused the U.S. share of Thailand's cotton import market to plummet to 5 percent (from 35 percent). Tobacco exports were also down, offsetting gains in soybean meal. In fiscal 1987, U.S. agricultural exports are expected to climb to nearly \$120 million, reflecting a recovery of U.S. cotton shipments and steady demand for U.S. wheat, tobacco, soybean meal, and breeding chicks. [Leslie E. Ross (202) 786-1614]



## MALAYSIAN PALM OIL: A STRONG COMPETITOR FOR U.S. SOYBEAN OIL

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**Abstract:** Increasingly, Malaysian palm oil is competing with soy oil in world vegetable oil markets. The area planted to oil palm trees is not responsive to short-run price changes. Malaysia is likely to produce about 4.5 million tons of palm oil in 1986/87 of which about 4 million tons will be exported. Gains in both area and yield are expected to push output to 5.7 million tons by 1990.

**Keywords:** Palm oil, soybean oil, vegetable oil, Malaysia.

Palm oil has emerged as a major competitor for soy oil in the world vegetable oil markets in recent years. Malaysia is the major producer and exporter of palm oil. Since domestic use is negligible, most of Malaysia's output is exported. Malaysia's share of the world fats and oils market rose from 2 percent in 1960 to 20 percent in 1986.

The ratio of meal to oil per ton of soybeans has remained essentially unchanged for many years. As economic growth led to progressively greater demand for livestock products worldwide, major additional investments in soybean crushing facilities were necessary to produce soymeal, the chief protein ingredient in livestock feeds. The United States has used a substantial program to move the byproduct soy oil into international markets in competition with palm oil.

### Government Assistance

The climate and economy in Malaysia favor the cultivation of the high-yielding oil palms. The palm oil industry is well-organized, drawing on more than 50 years of experience from large estate farmers. Since the early 1960's, the Malaysian Government has also supported palm oil production by smallholders, and area planted to oil palms has increased rapidly. During 1970-85, production increased at an annual average rate of 17 percent (see table 13). In the 1970's, Malaysia also encouraged investment in palm oil refineries to increase employment and value added. The campaign was successful; palm oil exports have changed

Table 13--Malaysia: Palm oil production and exports

Year	Production	Net exports <sup>1/</sup>
	----- 1,000 tons -----	
1970	431	402
1975	1,258	1,160
1979/80	2,540	2,174
1980/81	2,692	2,430
1981/82	3,351	2,654
1982/83	3,179	2,871
1983/84	3,324	2,819
1984/85	3,817	3,256
1985/86	4,772	4,101
1986/87	4,500	4,000

<sup>1/</sup> Beginning 1979/80 Oct-Sept. marketing year.  
Excludes palm fatty acid distillates.

from all crude oil in 1970 to almost exclusively refined oil today.

Oil palm area in 1986 totaled about 1.543 million hectares. Of this, 50 percent is owned by private estates, 30 percent by the Federal Land Development Authority (FELDA), and the remainder by smallholders or state development projects. FELDA is vertically integrated from growing oil palms to processing, refining, storing, and marketing. The Government of Malaysia undertakes the initial development and planting of oil palms for FELDA estates. Each estate averages about 4,000 hectares and supports about 400 families. The settlers are families with an agricultural background who provide most of the labor and sell their fresh fruit bunches through FELDA cooperatives.

The assistance provided by the Malaysian Government has brought allegations of unfair subsidization by U.S. commodity groups. In response to the allegations, Malaysian authorities have agreed to let the U.S. International Trade Commission conduct an economic investigation of the subsidy program.

### Technical Factors

Palm oil is extracted from the flesh of the oil palm fruit. It is used in the manufacture of shortening, margarine, frying fats, soaps, and detergents. A tree usually produces 5–15 bunches of fruit a year, with each bunch bearing about 800 to 1,000 fruits. Crude oil may be refined to remove impurities, bleached and deodorized (RBD). Other products are olein and stearin.

About half of Malaysia's palm area has been planted 10 or less years. The oil palm starts bearing fruit 30–36 months after the seedling is planted. Yields rise rapidly and peak within 8 to 10 years, after which trees slowly decline in productivity. As the oil palms continue to grow in height, the harvesting cost increases. After about 30 years it becomes more profitable to remove palm trees and replant the fields. Replanting also provides an opportunity to use new higher—and earlier—yielding varieties.

Two major technical innovations have raised palm oil production in Malaysia. In 1981, the Cameroon weevil was introduced as a less expensive alternative to manually assisted pollination. The improved pollination resulted in more fruit and denser fruit bunches. Although precise data are unavailable, the weevil has probably increased yields.

The other innovation has been cloning—reproducing trees vegetatively. Cloning may eventually increase yields by about 30 percent. About 5 to 10 percent of the plants are cloned every year, although low oil prices could discourage expansion.

### Economic Setting

Because oil palms bear fruit for decades, the oil palm area harvested is not very responsive to short-run price movements. Planting decisions are based on long-run

expectations of prices, profitability, and the level of Government support. Palm oil traditionally sells at a discount to soy oil in world vegetable oil markets. It will likely continue to compete strongly with soy and other vegetable oils during the rest of the century.

While the oil palm area harvested is not responsive to short-run price changes, yield responds to prices, as evidenced during the recent slump in commodity prices. Producers responded to low prices by cutting back on the intensity of input use, especially fertilizers. As the ratio of fixed to variable costs is high, in the short run the industry keeps operating as long as price covers the variable cost. During 1986, palm oil prices plummeted to record lows because of a global glut in edible oils. Prices of RBD fell from \$679 per ton in April 1985 to \$200 in September 1986, reportedly below the cost of production. Both prices and production have recovered since then.

Palm oil is becoming increasingly competitive with U.S. soy oil, both in the United States and in other countries. In 1981/82, the United States consumed 104,000 tons of palm oil. Except for one year when there was a slight decline, consumption has risen steadily. Total U.S. palm oil consumption in 1986/87 is expected to be 280,000 tons.

Most of the palm oil imported by the United States is refined for use in food manufacturing. The possible ill effect of palm oil consumption on blood cholesterol levels is being debated in the press. One proposal called for labeling of foods cooked in palm oil.

During 1986, Malaysia produced a record output of palm oil, continuing the long uptrend (see table 13). Area, production, and exports likely will continue to increase substantially for the rest of the century. The expected increase in supplies will allow Malaysia to export 4 million tons in 1986/87 and perhaps 6 to 8 million tons by 2000. Palm oil's competitiveness comes from low production costs and Malaysia's proximity to its major export markets. India and Pakistan receive about 22 percent of Malaysia's palm oil exports. Japan, Korea, and Bangladesh are also major customers. Six countries are expected to use more palm oil than the United



States in 1987: India, 775,000 tons; Indonesia, 714,000 tons; Nigeria, 700,000 tons; Pakistan, 580,000 tons; Malaysia, 510,000 tons; and USSR, 250,000 tons.

Continued growth in Malaysian palm production will make the task of marketing more difficult and may exert downward pressure on world vegetable oil prices. Although exporting firms and the Government are aware of the need to market increasing supplies, there is no integrated marketing promotion plan. Marketing development efforts to date have included official missions and trade teams, technical assistance, market identification, end-use research, and trade shows. However, Malaysia's marketing strategies are becoming more aggressive.

Malaysia has recently established joint-venture palm oil refineries in selected consuming countries—including the United States (Chicago), Egypt, and Pakistan. The Chicago refinery reportedly has a monthly production capacity of 10,000 tons.

Malaysia is adopting measures to reduce the costs of production, processing, and

marketing of palm oil. There is renewed interest in research on cost reduction, productivity, and industrial integration. The Palm Oil Research Institute of Malaysia (PORIM) has adopted two major programs: (1) the production of valuable seeds for the widespread breeding and planting of highly productive strains and hybrid oil palms, and (2) the production of high-yield plantlet tissue culture. PORIM, which has been engaged in cloning research since 1980, has committed itself to producing more than 1 million high-quality plantlets annually by 1990.

### Fifth Malaysian Plan

The Fifth Malaysian Plan for 1986–1990, adopted in March 1986, was formulated at a time when commodity prices were falling. A major thrust of the plan will be to boost palm oil production. Production is planned to increase 6.7 percent annually to reach 5.7 million tons by 1990. This increase is expected to result from an expansion in area as well as improvement in yields. Planted area will increase by 3.8 percent annually to 1.8 million hectares by 1990.

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# THE DEBT DILEMMA AND PHILIPPINE AGRICULTURE

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**Abstract:** The Philippine debt crisis has had far-reaching effects on the country's social, economic, and political fabric. Agriculture was not spared from debt-related disruptions, yet the subsequent reforms have already enhanced the competitiveness of the farm sector. Policy strategies to restore Philippine creditworthiness and economic growth are based upon reviving private sector activity and export growth, especially of nontraditional goods.

**Keywords:** The Philippines, debt, Philippine agriculture

## Introduction

Placing high among the world's debtors, the Philippines currently has a foreign debt of about \$28 billion. Since the suspension of principal payments on its foreign debt in late 1983 <sup>1/</sup>, the country has experienced 3 years of economic, political, and social turmoil, yet it now seems poised for recovery. This article briefly surveys the programs developed to restructure both the nation's foreign debt and the economy, and assesses several implications of the debt situation for the economy in general, and for Philippine agriculture in particular.

## Outcome of the Rescue Package

In December 1984, after 18 months of negotiation, the Philippines signed a financial and economic program with the International Monetary Fund (IMF). The agreement included a financial rescue package with commitments from the Consultative Group for the Philippines (representing 21 bilateral lending nations, the World Bank, the Asian Development Bank, and other multilateral bodies), and nearly 500 commercial creditor banks, represented by a committee of the 12 largest lenders. The plan called for:

- o rescheduling foreign debt of \$6.5 billion falling due during 1983-86,
- o supplying \$925 million in new loans,

- o providing \$3 billion in short-term trade credits, and
- o providing \$2.2 billion in development assistance from bilateral and multilateral sources, including 615 million in IMF "Special Drawing Rights" standby credit (worth \$630 million) over 18 months.

The Philippine performance in meeting financial and economic targets was to be evaluated by the IMF during the 18-month period. However, after only 12 months, the Philippines had achieved several program targets. The major ones were the rapid slowing of the inflation rate, the eliminating of arrears on debt payments, and the narrowing of the current account deficit (see table 14).

In addition, debt rescheduling and new loans enabled the Philippines to pass through the critical phase of its foreign exchange crisis. Persistent weaknesses included a shortfall of government revenues and a large budget deficit, high real interest rates, lack of confidence in the financial system, deteriorating export performance, and an appreciating real exchange rate relative to trading partners and competitors, particularly in Asia. As a result, the economy did not stabilize but instead contracted 4 percent (real terms) in 1985 (compared with -5.5 percent in 1984).

Political events in early 1986 caused the review process to be suspended by March. The financial situation began to deteriorate when Philippine fiscal policy turned sharply

<sup>1/</sup> For background, see "The Philippine Debt Crisis," *Southeast Asia Outlook and Situation Report*, June 1985.



Table 14 --Balance of payments summary of the Philippines

	1978-81	1982	1983	1984	1985	1986
\$ billion						
Merchandise trade						
Exports, f.o.b.	4.9	5.0	5.0	5.4	4.6	4.6
Agricultural products	2.0	1.7	1.6	1.5	1.1	1.2
(%)	(41)	(34)	(32)	(28)	(24)	(26)
Imports, f.o.b.	6.6	7.7	7.5	6.1	5.1	4.9
Agricultural products	.5	.9	.8	.6	.6	.5
(%)	(7)	(12)	(11)	(10)	(12)	(10)
Services, net	-.3	-1.2	.7	-1.0	.1	.7
Transfers, net	.4	.5	.5	.4	.4	.4
Current account balance 1/	-1.2	-3.4	-2.7	-1.3	--	1.0
(as % GNP)	(-5)	(-8)	(-4)	(-4)	(--)	(3)
Direct investment, net	.2	.2	.1	--	--	.1
Short term capital, net	.3	.6	-.6	.5	-1.5	-1.7
MLT loan, net	.7	1.5	1.3	.4	.8	.8
Capital account balance 1/	1.5	2.4	.6	1.1	-.7	-1.4
Errors & omissions	.3	-.7	-.2	.2	.8	.2
Foreign reserve level	2.3	1.8	.9	.9	1.1	2.5

-- = None or less than \$500,000. 1/ Figures may not add because of rounding.

SOURCES: Central Bank of the Philippines; International Financial Statistics.

expansionary, due to former-President Ferdinand Marcos' unexpected announcement of a presidential election in February 1986, one year earlier than scheduled. With the program targets exceeded, the new Government of President Corazon Aquino requested that negotiations begin toward a new program. The debt rescheduling and new loan components of the 1984 program remained in effect.

### Effects on Agriculture

Agriculture, accounting for 28 percent of the country's GNP, was the only sector of the economy to expand in 1984 and 1985. Still, farm sector growth was well below that of the preceding decade, in part because of poor weather and inadequate producer incentives, but also because of debt-related disruptions in input imports, farm credit, and consumer demand. Producer costs outpaced overall inflation and farm support prices, discouraging use of costly inputs.

### Fertilizer Supply Disrupted

The use of foreign exchange controls through October 1984 reduced imports of

essential agricultural goods, such as fertilizer, pesticides, and animal feeds. With limits on supply and with depreciation of the Philippine peso, prices for these goods rose sharply. For example, prices for urea, the single most widely used fertilizer, nearly doubled, and total fertilizer consumption fell 21 percent between 1982 and 1984 (see table 15).

Although the Asian Development Bank and World Bank loans provided adequate credit coverage for fertilizer imports, importers had

Table 15 --Fertilizer supply and demand in the Philippines

	Total consumption	Imports	Local production	Exports
----- 1,000 metric tons -----				
1981	785	427	264	0
1982	846	765	126	0
1983	878	613	164	0
1984	665	626	103	0
1985	710	599	500	181
1986	960	876	696	610

SOURCE: Fertilizer and Pesticide Authority, Philippines.

difficulty securing the counterpart financing. This hindered fertilizer imports, which accounted for about 75 percent of total fertilizer supply during 1979-83, and led to a 24-percent drop in consumption during 1984. In 1985, fertilizer imports contracted to account for less than half of the country's total supply, as domestic fertilizer production tripled and consumption edged upward.

The start-up of the Philippine Prosphate Fertilizer plant has even led to exports of its products. However, the Philippines will continue to import urea, ammonia sulphate, and potash because of the country's limited ability to manufacture those grades economically. The Philippine fertilizer situation is expected to continue benefiting from the recent dismantling of the local fertilizer trade and marketing oligopoly, the drop in world fertilizer prices, and the lifting of import regulations for fertilizer grades not produced locally.

#### *Farm Credit Contracts*

Another important factor influencing the farm sector was the contractionary policies of Philippine monetary authorities, policies which led to high interest rates and lack of production credit. This further depressed demand for and use of agricultural inputs. Historically, informal sources supply the bulk of short-term agricultural production credit. During 1983-84, these sources saw private savings reduced by inflation and a cutback in bank credit available for agriculture, leading to an estimated 60-percent drop, in real terms, in the supply of production credit since 1980.

#### *Tariff Reform Suspended*

The Philippines began a tariff reform program in 1979 to remove biases against agriculture that had arisen in an effort to promote industrialization and import substitution. In general, manufacturers received protection through import tariffs, quantitative restrictions, and other nontariff barriers, while agricultural producers faced export taxes, quasi-government control of marketing, and low prices to protect urban consumers.

The gradual reform in tariffs was arrested in 1983, when export taxes were reimposed on

some agricultural products to generate revenue following the foreign exchange crisis. Although agriculture's share of total merchandise exports has been declining in the 1980's, it still accounts for about one-third of export earnings. Weak export prices for many of the Philippines' traditional agricultural exports (particularly sugar and coconut oil) have contributed to the nearly 6-percent annual decline in the value of agricultural exports between 1982 and 1986, compared with 5 percent annual growth in the 1970's.

For example, sugar exports plummeted from an average 1.7 million tons during 1979-81 to under 600,000 tons in 1985. Restricted and shrinking export markets, particularly the United States, combined with low world market prices have severely affected not only the Philippine sugar industry, but the total economy. As a share of total exports, sugar contributed 12 percent during 1973-82, but fell to only 3.5 percent in 1985. Because of long-term contracts during 1981-84, the Philippines initially avoided the full impact of falling world sugar prices. During this time, the average sugar price fell from about \$660/ton in 1980 to \$115/ton in 1984, and then \$90/ton by 1985. Even at the relatively improved 1986 price of about \$132/ton, world prices are below the estimated Philippine cost of production at \$265/ton. As a result, the sugar sector has contracted severely, with production limited to supplying the domestic and U.S. market.

#### *Food Imports Slashed*

Consumer demand for many products, including agricultural goods, has been curbed by the roughly 15-percent decline in per capita income that has occurred since 1983. The Philippines is a net exporter of farm products yet is dependent on imports for several commodities, particularly wheat, dairy products, cotton, soybean meal, breeding stock, and animal vaccines. Between 1983 and 1984, food imports fell 20 percent, slightly more than total imports at 19 percent, but considerably less than the 32-percent contraction of capital goods imports.

The response of agricultural suppliers through donations and export credit programs prevented further contraction of food imports in 1985, while imports of capital goods, raw



Table 16 --Philippine imports by major commodity groups

Commodity groups	1979-81	1982	1983	1984	1985	change from 1983 to 1985
	\$ million					%
Capital goods	1,898	1,786	1,698	1,150	788	-53.6
Raw materials and intermediate goods	1,973	2,066	2,882	2,505	2,092	-27.4
Mineral fuels	2,038	2,105	2,123	1,649	1,452	-31.6
Food	470	650	528	425	426	-19.3
Other	893	1,060	256	341	353	37.9
Total imports	7,272	7,667	7,487	6,070	5,111	-31.7

SOURCES: Foreign Trade Statistics of the Philippines, National Census and Statistics Office; Central Bank of the Philippines.

materials and intermediate goods, and petroleum fell sharply (see table 16).

### *Cutback in Public Investment*

In an effort to reduce the government budget deficit yet minimize the social and political ramifications of reducing wages, public investment programs were cut nearly 60 percent from 1982 to 1985. Outlays for transportation/communications (down 85 percent) and industry (down 92 percent) were the most severely cut, followed by a 63-percent reduction in agricultural expenditures.

In agriculture, this meant a sharp decline in already low outlays for irrigation operation and maintenance, as well as suspension of virtually all ongoing irrigation projects. Inadequate maintenance and use of existing irrigation facilities have contributed to agriculture's low productivity. The country's self-sufficiency in rice, which accounts for the bulk of irrigated area, could be threatened if irrigated areas are allowed to fall into disuse during the dry season and become rainfed during the wet season.

### *A New Economic Program*

The Philippines embarked upon a new financial and economic program with the IMF in October 1986, an approach that reflects a growth-oriented strategy for economic recovery. The Government plans to stimulate

the economy initially through deficit spending, while providing a business and political environment conducive to investment and private-sector initiative. The plan rests upon the following foundations: the redress of income maldistribution, rural development, a substantial reduction of the Government's role in the economy, trade liberalization, and a flexible exchange rate policy.

Most sectors of the economy began to show signs of recovery by late 1986, as reforms in several key industries were implemented. Agriculture, viewed as the catalyst in the recovery effort, responded most rapidly and increased its overall growth to 3.3 percent (1.3 percent in 1985).

Debt-rescheduling negotiations dominated much of 1986, supported by implementation of a debt-equity conversion scheme similar to those in Latin America. The program allows foreign banks or companies owed money by the Philippines to convert part of those loans into local investments, which can then be sold to a secondary investor.

### *Debt-equity Program Announced*

This program is attractive to creditors, who have been receiving interest payments on their loans but are unlikely to see a resumption in principal payments until 1990, at best. For the Philippines, the program is designed to attract much-needed investors through the secondary market. Thus far, the

country has received nearly 80 applications for conversion and approved about 30. Investors have been largely interested in export-oriented industries, but agriculture and hotels have been in demand also. Capital repatriation may begin after 3 years in preferred sectors (i.e. agriculture, export industries, education, and health care) and after 5 years in less preferred areas (i.e. hotels).

Confidence in the country's economy has been bolstered in 1987 by the ratification of the new constitution in February, the tentative debt rescheduling agreement in April, and the restoration of a popularly elected congress in May.

While it is premature to assess the new program's effectiveness, some tentative conclusions can be drawn. Resumption of more normal trade flows has caused Philippine policy and institutional reforms <sup>2/</sup> to more directly influence the agricultural sector than the debt issue. Nevertheless, foreign debt still places a heavy burden on the economy and strains the country's limited resources. While there is no single way of determining how much debt a country can comfortably carry, several measures are common.

One is the ratio of total debt to GNP, with a 60-percent ratio considered worrisome. The ratio of Philippine debt to GNP is estimated at 95 percent in 1986, compared to a total debt/GNP ratio of 50 percent in 1978-81 (see table 17).

Also, a ratio of short-term debt to total debt that is above 25 percent, particularly if it is rising, is considered a danger sign. The Philippines short-term debt ratio averaged 43 percent in 1978-81 and rose to 48 percent in 1982. Since 1983, debt rescheduling agreements have steadily lowered this ratio to its much improved 1986 level of 19 percent.

Another measure is the ratio of debt service to export earnings, which in the Philippines is 35 percent. This is much improved from the peak of 52 percent in 1982, but above the 30-percent benchmark often used by lenders.

Lenders also consider the ratio of international reserves to imports. In the Philippines, this ratio began to deteriorate in 1981. In general, a minimum of 3 months is desirable; Philippine reserves sunk to less than 1 month of imports in 1983, but recovered to over 3 months by 1986. Additionally, interest

Table 17 --Debt indicators for the Philippines

	1978-81	1982	1983	1984	1985	1986
Nominal GNP (\$ billion)	31.3	38.7	35.4	31.5	32.0	29.6
Total Debt (\$ billion)	15.3	23.8	24.8	25.9	26.2	28.2
As % of GNP	(49)	(61)	(70)	(77)	(82)	(95)
As % of Foreign Reserves	(15)	(8)	(4)	(3)	(4)	(9)
% Short-term <sup>1/</sup>	(43)	(48)	(38)	(37)	(33)	(19)
% Public <sup>2/</sup>	(85)	(86)	(87)	(90)	(89)	NA
Total debt service						
As % of GNP	(7)	(9)	(9)	(9)	(7)	(7)
As % of Exports	(38)	(52)	(46)	(39)	(35)	(35)
International Reserves/ Imports (months)	4.0	1.8	.9	1.0	1.6	3.1

NA = Not Available.

<sup>1/</sup> After rescheduling.

<sup>2/</sup> and publicly guaranteed. Long-term debt only.

SOURCES: International Financial Statistics, IMF; World Debt Tables, The World Bank; ERS estimates.

<sup>2/</sup> For a review of these reforms, see "The Philippines" section of this report.



earnings on foreign exchange holdings can offset interest payments on debt. A comfortable reserve to total debt level would be around 20 percent; although growing, the Philippine ratio is below 10 percent.

Government plans to improve rural infrastructure are highly dependent on successful debt renegotiations and increased domestic revenue collections. Failure in either of these areas would affect the competitiveness of Philippine agriculture by inhibiting the necessary improvements in the road and transportation network and irrigation facilities.

#### *Consumer Demand Slow To Recover*

A lingering effect of the debt crisis is depressed consumer demand, which is expected to hamper demand for agricultural products over the next 3–5 years. With annual population growth of 2.7 percent, per capita incomes are not likely to recover in the near term from the more than 15-percent decline that occurred over the last 3 years. This will limit expansion of per capita consumption of higher value items, such as meat and wheat products.

On the other hand, the downward adjustment in average real wages has made the Philippine labor market very competitive with other Pacific Rim countries. This acts as a lure to investors and a bonus to exports.

The inadequate supply of credit to farmers continues. The liquidity situation has improved, yet banks are still reluctant to provide agricultural credit because of the relatively higher risk and greater transaction costs compared with other sectors.

Even under the new recovery plan, the foreign debt issue will continue to challenge Philippine policymakers into the 1990's. To avoid a repetition of the recent crisis, the country plans to continue improving the repayment schedule of the existing debt while carefully monitoring and limiting approvals of new nonconcessional and short-term debt.

Because of insufficient domestic sources, new foreign loans are an essential component of the Philippine recovery plan. As a result, the foreign debt is expected to total almost \$35 billion by 1992. As a percent of GNP, however, total debt will fall from 95 percent in 1986 to an estimated 70 percent. Simultaneously, the country is expected to run modest current account deficits (less than 5 percent of GNP) through 1992.

While import growth is expected to resume, the recovery hinges heavily on a substantial improvement in exports. By the early 1990's, the Philippines expects exports to become less dependent on its traditional commodity exports (i.e. logs, copper, coconut products, sugar) which are likely to continue facing volatile world prices. Agricultural diversification possibilities include cocoa, coffee, shrimp, and processed fruit and vegetables. Although the Philippines began to diversify into manufactured product exports during the 1970's, these nontraditional exports remained centered on just three products — semiconductors, garments, and handicrafts. The first two products do not generate significant employment opportunities and are dependent on imported inputs, keeping value-added earnings low. Philippine officials suggest annual export growth of at least 10 percent could help the economy grow about 5 percent per year in 1987–92. This assessment depends upon active private sector participation and a healthy world economy, as well as a supportive and flexible domestic public policy environment.

Delays or failure in implementing specified reforms will necessarily alter this scenario and result in slower economic growth. To return per capita income to its 1983 level by the early 1990's, annual economic growth will need to be at least an estimated 5 percent. Slower growth will curb import growth of income-responsive products, including such agricultural products as wheat, tobacco, soybean meal, and breeding stock.

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## Southeast Asia

